Submission before the Banking and Commerce Committee of the House of Commons

by

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on behalf of the

Government of the Province of Alberta

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L U C I E N   M A Y N A R D
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INTRODUCTION

I appreciate the privilege of appearing before you to make representations on behalf of the Government of Alberta in connection with the revision of the Bank Act and the Bank of Canada Act.

In the past our views on banking and money have been ridiculed. We have been scoffed at for advocating what has been called "funny money" or "fountain pen money". Possibly, there was no stronger critic of our ideas than Stephen Leacock, the famous professor of Economics at McGill University. I would like to quote one or two paragraphs from Stephen Leacock's book, "Canada - The Foundation of its Future", published in 1941, after Leacock's retirement from McGill, and two years after Canada's entry into World War II.

> "To this province (Alberta) were imported certain economic profundities of British fog, impossible for most people to understand, which in sunny Alberta, by force of prayer, turned into Alberta Social Credit. The theory is an expansion of the idea of living by taking in one another's washing. It is suggested that if all the people collectively give twenty-five dollars each to all the people separately, then each of the separate people can call for work and goods from all the other people, whereby everybody has work and the work supplies everybody with bread. The theory is parallel to all the new doctrines of "priming the pump', pensioning all old men who promise to spend every cent -- in other words all the theory of 'purchasing power'."

Shortly before he died, this same Stephen Leacock wrote an article which was published in MacLean's Magazine of May 1st, 1943. Let me now give you by way of contrast the views held by Leacock just before his death:

> "But as between the two ideals both imperfect, of free competition and co-operative socialism, the war has greatly modified the ideas of many, <u>of whom I am willing to be one. A man who hasn't changed any of his ideas since the war started</u>

is in the class of a man who hasn't changed his shirt -- too conservative. The war has revealed to us the vast power of the co-ordinated effort of machine production, and enormous latent force we never realized."

A reading of this article will reveal that Stephen Leacock no longer ridicules the views we have been advocating in Alberta since 1935 about our monetary system. On the contrary Leacock has now become an ardent advocate of the "fountain pen" money. I will have more to say about Leacock later.

The last revision of the Bank Act was in 1944. I am convinced that like Leacock, the war must have changed many of your ideas about money. I am convinced also that regardless of divergent viewpoints which may have prevailed, you are prepared to hear our views impartially and give them every consideration. Were I not so convinced, I would not be here today.

On the other hand I want to assure you of our one purpose -- the desire to help make this Canada of ours a more prosperous place in which all Canadians may live in.

May I say right now that we have no quarrel with the men who operate our Canadian banks. They have done an outstanding job under the provisions of the Bank Act to look after the interests of their shareholders. Most of the leading heads of our banking institutions are men who have started at the bottom of the ladder and have worked their way up through all the various phases of banking administration. We pay tribute to the honesty, integrity and ability of these men. I repeat, they have done a wonderful job under the provisions of the Bank Act. The problem we must solve however, has little to do with the efficiency of those who operate the banking system. It is of a far more fundamental nature. It is a problem that goes to the very core of the banking system itself.

We propose to submit several concrete recommendations to

amend both the Bank Act and the Bank of Canada Act. To assist you in understanding the nature and effect of these proposed amendments, I propose to deal at some length with the operations of the chartered banks today under the present Bank Act. With a fuller knowledge of how the present banking system functions, I am certain our proposals will not be difficult to understand.

As an illustration of what I mean, let me call your attention to the November, 1953, Monthly Letter published by the Royal Bank of Canada. This letter dealt with the Canadian Banking System and starts off with the following statement:

> "The primary operations which banks perform in the community are the receipt of money, the re-lending of it to borrowers, and the facilitating of exchange. Through these services the banks assure the profitable use of all the purchasing power of the community and channel into every day use the savings of individuals while safeguarding those savings".

This statement if taken literally propagates a myth that I thought had been exploded years ago by many prominent people, bankers, economists, etc., yes, even by Graham Towers, Governor of the Bank of Canada, when giving evidence before the Banking Committee in 1939. The myth is that the Banks lend only the deposits of their customers.

There are many people who still think this is the case, mainly because the banks say it is so. Such propaganda has resulted in confusion and misinformation among the people about the banking system. I want to be clear on this point. The main function of banks today is not to safeguard deposits and "the re-lending" of these deposits. The main function of banks today is the creation and issue of money.

It is indeed surprising that the Royal Bank of Canada would make such a statement in the light of the clear-cut and emphatic

statements made by Graham Towers before this same Committee in 1939. On pages 455 and 456 of the record of the official proceedings before the Committee we find these statements:

"Mr. Towers: The banks cannot, of course, loan the money of their depositors. What the banks have done is to make loans and investments which result in a certain sum total of deposits. In respect to savings that amount is $1,600,000,000 odd. Now what the depositors do with these savings is something qite beyond the control of the banks.

Q. You have agreed that banks do create money?

Mr. Towers: They, by their activities in making loans and investments create liabilities for themselves. They create liabilities in the form of deposits.

Q. You will agree the statement that has been made that banks lend by creating the means of payment?

Mr. Towers: Yes, I think that is right."

These statements require no comment at this point.

In order to obtain a proper understanding of the recommendations we propose to make to amend our banking legislation, it is necessary to have some understanding of the weaknesses and defects of the existing banking system that must be remedied. These defects can best be recognized if we understand fully the principles governing the operation of the banking system today. I know of no better way to do this than to follow the development of the principles of banking through their various phases up to the present day. Consequently I propose to deal with the whole question of banking under three main headings namely:

I - Historical development of Canadian banking legislation and examination of the operation of chartered banks under existing legislation.

II - Defects or weaknesses of the present Canadian banking system and the effect on the Canadian economy.

III - Proposals to amend the Bank Act and the Bank of Canada Act and the effect of these proposals on the technical operation of the Canadian banking system as well as on the Canadian economy.

PART I

HISTORICAL DEVELOPMENT OF CANADIAN BANKING LEGISLATION AND EXAMINATION OF THE OPERATION OF CHARTERED BANKS UNDER EXISTING LEGISLATION.

Our object in discussing the operation of the chartered banks is to lay the foundation for the recommendation we propose to make later. We do not wish to delay the Committee but we feel that to fully appreciate the principles governing the operation of the chartered banks today, it is necessary to review the development of banking, and particularly the development of Canadian banking legislation.

1.- DEFINITION OF BANKING

What is banking?

The 1924 edition of Webster's International Dictionary of the English language at pages 178 and 179 gives us the following definitions of "banker" and "banking":

(a) "bank, - orig., the table, counter, or place of business of a money changer; now the building or office used for banking purposes....An establishment for the custody, loan, exchange, or issue of money, and for facilitating the transmission of funds by drafts or bills of exchange; an institution incorporated for performing one or more of such functions, or the stockholders (or their representatives, the directors), acting in their corporate capacity. Bank of deposit, a bank which receives money for safe keeping. Bank of issue, or circulation, a bank which issues its own notes payable to bearer."

(b) "banker - one (either a person or a corporation) who conducts the business of banking; one who, individually, or as a member of a company, keeps an establishment for the deposit or loan of money, or for traffic in money, bills of exchange, etc."

(c) "banking - the business of a bank or of a banker. The BUSINESS OF BANKING ORIGINALLY WAS THAT OF MONEY CHANGING; at present banking, in general, consists in taking money on deposit subject to check or draft, loaning money, as by discounting

> notes and bills, issuing drafts, and any other associated form of general dealing in money or credit. One or more of these operations if carried on with the public in general, may be construed as banking."

Halsbury's Laws of England, 2nd edition, Vol.1, contains at page 796, an article entitled "Business of Banking" from which it would appear that banking today consists of the following operations:

1. receipt of money on current account;
2. receipt of money on deposit account;
3. collection of cheques;
4. collection of bills of exchange;
5. collection of other documents, e.g. money orders;
6. payment of cheques;
7. payment of bills accepted payable at a banker's;
8. issuing letters of credit and documentary bills;
9. <u>advances by way of loans or overdrafts and taking security for same</u>;
10. <u>discounting bills</u>;
11. providing safe custody for valuables.

In addition there are listed a number of obligations either direct or implied imposed upon a banker.

<u>The Encyclopedia Britannica, Vol. 3 at page 44</u> contains an article dealing with the functions of a bank. These are covered by three main heads:

1. It provides safekeeping for people's money.
2. The bank provides a temporary investment for money, paying interest so long as the money is retained, and repaying the principal on its being claimed in accordance with the contract.

3. It provides a means of payment.

In connection with its function as providing a means of payment the Encyclopaedia adds at page 41:

> "Payment is the process by which a debt is discharged. Money is the means established by law for discharging debts. The debtor has the right to pay his debt in money, and the creditor has the right to require payment in money. But the use of money may not be the most convenient means of payment either to the debtor or to the creditor...."
>
> "...people do not want money except as a means of payment. For the major payments a transfer in a bank's books is a more convenient means than money. Consequently the creditors prefer not to have their credits paid off in money. They prefer to hold balances of bank credit or credit money, that is to say, debts due from the banker, which can be used as a means of payment."

The issue of credit money has become possibly the most important function of banks today..Credit and the transfer of credit from the account of one individual to another as a means of payment has virtually taken the place of bank notes. Bank notes consequently no longer occupy the importance they formerly held in the field of banking, especially in Canada where the chartered banks no longer enjoy the privilege of issuing notes.

The extent to which credit deposits have replaced money today for commercial transactions can be ascertained by a study of the Report by the Royal Commission on Banking in 1933, commonly knowh as the British MacMillan Report (see pages 27 and 32 particularly), and also a study of the evidence given in 1939 by Graham Towers, Governor of the Bank of Canada before the Standing Committee on Banking and Commerce of the House of Commons which will be found in the minutes of Proceedings and Evidence respecting the Bank of Canada.

The method of paying debts by the use of a cheque on a credit deposit in a bank although well established now is a comparatively modern device. Before being used for this purpose, the cheque was used to authorise

a bank to transfer money - either bank notes or specie - deposited with the banker to some other individual, and not for the transfer of credit deposits.

In order to fully understand the significance and the tremendous importance of this modern banking practice of issuing credit and dealing in credit deposits, it is necessary to review briefly the process through which banking has evolved to reach its present form.

2.- HISTORY OF BANKING

(a) General: (see Holdsworth's History of English Law, Vol.8, pages 177 - 191)

Modern banking first started in Italy spreading from that country mainly to Holland and other places on the European Continent and gradually started in the British Isles through the operations of the goldsmiths.

The first bankers were known as money-changers. Their main function was to provide for the safe transportation of money from one place to another, and to exchange the money of one country into that of another country.

Subsequently bankers accepted money on deposit for safe-keeping and undertook to return its equivalent in good sound money when required by the depositor. The bankers charged the depositor a fee for this service but after discovering they could lend the money held on deposit for gain, viz., interest, they commenced paying depositors a fee instead of charging them, in order to induce the public to deposit their money with them.

Upon receiving this money on deposit the bankers would issue a promissory note undertaking to repay on demand the amount deposited. The practice soon developed whereby the depositor, instead

instead of presenting his note and demanding the return of his money so that he could meet his obligations, would transfer the banker's note to his creditor. The creditor could then take the note to the banker and obtain the money if he so wished.

The bankers realized there was very little demand for the actual money deposited with them -- the people preferring to use the more convenient banker's note -- so they commenced to issue more notes than they had money on deposit. The public soon discovered the fraud, immediately presented their notes for payment, and the bankers went bankrupt.

This fraudulent and dishonest practice on the part of the early banks was so widespread that the various states found it necessary to intervene to protect the general public. In 1584 out of 103 banks which had started in Venice, 96 had failed. The intervention of the state led to the establishment of State Banks which by the end of the 16th century became the most important banks in Europe.

Recognized banking in England commenced with the operations of the goldsmiths, who like the continental bankers, accepted monies on deposit, issued their notes, lent money -- even to the King -- in the form of notes in excess of their deposits and consequently found themselves unable to meet their obligations. (see Holdsworth's History of English Law, page 185).

(b) <u>Bank of England</u>:

This was the situation in England in 1694 when the first bank was organized and recognized by law. This was the Bank of England.

The Dutch war of 1672 had greatly increased the burden on the King's funds. The Parliament in England which was controlled mainly by goldsmiths and money lenders refused to let the King raise

more money by taxation and compelled him to default on his obligations.

King William III finally had to capitulate in 1694. He had to have money or face ruin. The goldsmiths and money lenders in Parliament headed by William Paterson saw their opportunity and finally agreed to let the King impose additional taxation providing the King would grant a charter to certain people who would lend him money to carry on his war with France.

Thus the authority for the incorporation of the Bank of England is not to be found in any Act entitled the Bank of England Act, but rather in the Ways and Means Act of 1694, 4 William & Mary ch.20. The long title of This Act (sometimes called the Tunnage Act) reads as follows:

> "An Act for granting their Majesties, several rates and duties upon tunnage of ships and vessels and upon beer, ale and other liquors, for securing certain recompenses and advantages in the said Act mentioned to such persons as shall voluntarily advance the sum of fifteen hundred thousand pounds towards the carrying on the war against France."

This is the original charter of the Bank of England giving a group of traders and money lenders the legal right to make and issue money. Here was the beginning of our modern banking system. (Holdsworth's History of English Law, Page 188)

The original amount of capital subscribed was £1,200,000 all of which was advanced to the government at eight percent interest, together with £4,000 for operation expenses, payable annually. The Bank was legally authorized to deal in bullion and bills, issue assignable notes, to lend on merchandise, to issue bank notes - paper money - to the value of the sum lent to the government, even beyond its reserves of bullion. It derived its profits from the interest paid by the Government and from the notes it put into circulation.

In dealing with the method of operation of the Bank of England, Thorold Rogers states in his book, "The First Nine Years of the Bank of England"; at page 9:

> "It purported to give in its bills the equivalent of what it had received, but it never pretended to take the deposit for any other purpose than that of trading with it. It never professed to make its issues square exactly with its coin and bullion, though of course it made its liabilities square with its assets, plus the capital of its shareholders, and in time, plus the reserve also, i.e. its accumulated and undivided profits. At first these profits were derived from the dividends it received from Government, and from the gains it made out of the notes which it put into circulation, in exchange for, or in addition to, the cash which it took. It coined, in short, its own credit into paper money."

In Rogers, First Nine Years of the Bank of England at page 24 it is stated that William Paterson, one of the original founders of the Bank of England in a pamphlet entitled "A Brief Account of the Intended Bank of England, 1694", declared:

> "If the proprietors of the Bank can circulate their own foundation of twelve hundred thousand pounds without having more than two or three hundred thousand pounds lying dead at one time with another, this bank will be in effect as nine hundred thousand pouhds on a million of fresh money brought into the nation."

As a matter of fact in 1696, the Bank was actually circulating one and three-quarter million pounds in paper notes - against a cash, or legal currency reserve amounting to only thirty six thousand pounds. (See Rogers, supra, at Preface Page XVIII, and pages 72 and 73)

It is important to note that at the outset the Bank of England was not issuing credit, but was issuing promissory notes - which were then known as bank notes - as money. There was no expansion of credit in relation to cash or bank notes, only an expansion of bank notes in relation to cash or currency or gold.

The first charter of the Bank of England expired in 1709 and when renewed the Bank was given the privilege of doubling its capital and consequently doubling its note issue as well. It exercised this power by issuing, not credit, but bank notes. (See Saw, the Bank of England, at page 29)

The Bank again faced financial difficulties in 1796. Legislation was passed in 1797 authorizing the Bank to suspend redemption of its notes in gold, thus making the Bank of England notes inconvertible. (See Saw, Bank of England at page 47)

Although the burden was somewhat eased the repeated demands of the government for funds continued to be embarrasing to the banks until finally a Parliamentary Committee known as the "Bullion Committee" was formed in 1810 to investigate the whole matter of bank note issue in relation to gold. The Bullion Report presented in June 1810 found "that there was too much paper money in circulation". (Saw, Bank of England, page 50) The remedy proposed in the Report was "a return to cash payments within two years". (Saw, supra, page 50) Needless to say, this remedy was not implemented.

The financial crises of 1826 and 1837-39 were blamed on the excessive amount of notes issued by the Bank of England. In December, 1825 the gold reserve of the Bank was only £1,260,000 with notes in circulation of over £20,000,000. (See Saw, supra page 54) Thus arose the great debate between the advocates of the "Currency Principle" and those of the "Banking Principle" of note issue, i.e. whether the issue of bank notes should be based on gold or on liquidable assets. Sir Robert Peel adopted the "Currency Principle" which was incorporated in the provisions of the Bank Act of 1844.

(See Saw, page 57); also (Clapham, "The Bank of England", pages 181 - 182)

The Bank Act of 1844 was designed mainly to make the Issue Department of theBank of England the sole bank note issuing authority in Great Britain. This aim was finally achieved in 1921.

A study of the discussions that took place in England at the time of the passing of the Bank Charter Act of 1844 will reveal clearly the tremendous importance attached to the privilege of issuing bank notes.

The main question to be decided was whether bank notes should be issued on the "banking principle", or the "currency principle". The policy of issuing bank credit and its substitution for bank notes had not yet even been conceived and the privilege of issuing notes was the most important and lucrative function of banking. (See Rogers supra) A study of Canadian banking up to the time of Confederation will reveal that this situation also applied to Canada.

(c) Banking in Canada: (References: A History of Banking in Canada by B.E. Walker; Canadian Banking System, 1817-1890 by Breckenridge)

Banking commenced in Canada in 1792 or 1795 with the operation of a private bank "without the legislative authority to issue notes".

The first bill for the establishment of a bank with authority to issue notes was introduced in the Legislative Assembly of Lower Canada in 1808 but was never passed. (See Walker Page 11)

The Bank of Montreal was organized in 1817 but it was not until 1821 that it received its charter from the Legislature of Lower Canada along with two other banks but these original three bank charters did not receive royal assent until 1822. (See Walker page 17)

The provisions of these charters were identical. It is necessary to refer only to the "Act for Incorporating certain persons

therein named, under the name of 'President, Directors and Company of the Bank of Montreal'". (Ch.XXI, 1 Geo. IV, Statutes of Lower Canada, 1821)

Section 9 of the Statute contains fifteen provisions which "shall form and be deemed and held to be Fundamental Articles of the said Corporation". For the purpose of this Reference it is only necessary to refer to the following three rules.

Rule 9 - The total liabilities of the Bank are not to exceed three times the capital stock actually paid in, over and above a sum equal in amount to such money as may be deposited in the Bank for safekeeping. In case of excess, the directors were personally liable.

Rule 11 -The Bank was authorized to issue notes to circulate as money, without restriction other than the general limit for all obligations.

Rule 15 -The Bank was authorized to deal in bills of exchange, discount notes, to deal in gold and silver coin and bullion, etc., and to sell stock pledged for money lent and not redeemed.

In addition section 10 of the statute provided that all notes issued were payable in gold or silver coin, current by the laws of the Province. In other words, although the Bank was authorized to issue 3 times more notes than its paid-up capital stock plus the amount held on deposit in specie, it was still required to redeem all its notes in specie, when called upon to do so.

The first bank charter issued in Upper Canada was passed by the Provincial Legislature in 1817 but only recieved royal assent in 1821. This was issued to the Bank of Upper Canada. Other charters followed.

The Act incorporating the Bank of New Brunswick received

royal assent in 1820 and therefore holds the distinction of being the first bank in what is now Canada. The first bank charter issued in Nova Scotia was in 1825.

All these bank charters contained the same fundamental principles although there may be some differences in certain minor aspects. For instance all the charters issued in New Brunswick contained a clause restricting the total liabilities to twice the amount of the paid-up capital, instead of three times as in the other provinces.

Little would be gained by a detailed examination for comparative purposes of the many different bank charters issued in the various provinces. It is sufficient to note that all these banks operated on the same fundamental principle, namely, expansion of note issue in relation to the amount of specie on hand.

Thus was incorporated into Canadian Banking that most important and lucrative function and privilege of banking in Great Britain, the issue of bank notes to be used as money over and above a small amount of specie held as reserve to redeem the notes issued when presented for payment. Although there was no restriction on the amount of notes that could be issued by the Bank, except the provision that the total liabilities of the Bank were not to exceed three times the amount of the stock actually paid in, yet section 10 of the Act incoporating the Bank of Montreal required the Bank to pay every note it issued, "in gold or silver coin, current by the laws of the Province."

At the first Session of the new legislature, following the Union of Upper and Lower Canada in 1841 the Select Committee on Banking and Currency recommended a uniform system for the new Province of Canada as well as certain modifications to the existing legislation. These recommendations were adopted by the legislature when renewing the

existing bank charters as well as when granting new charters. It is sufficient to refer to the statute renewing the Charter of the Bank of Montreal and providing for an increase in its capital stock (4 and 5 Victoria, ch. 98; Statutes of Canada, 1841).

The most important relevant provisions of this enactment which existed during this period may be summarized as follows:

Section XXV provided that all promissory notes issued are to be payable on demand in specie at the place of issue.

Section XXVIII provided that the total amount of the debts a bank shall at any time owe, whether by bond, bill, note or otherwise shall not exceed three times the aggregate amount of the capital stock paid in, and the deposits made in the bank in specie and government securities for money.

This section also limited the note issue to the amount of the paid-up capital.

Section XXIX provided for the first time for the double liability of shareholders in the event of failure.

These provisions remained in effect till Confederation and were re-enacted in Dominion Legislation immediately after Confedera- in 1869 and again 1871.

In 1867 therefore the charters of the banks then in operation empowered them to issue money in the form of their own notes up to the full amount of their paid-up capital.

The practice followed by the banks in Canada at the time of Confederation was not to issue credit on the strength of legal tender notes held as is done today but rather to issue promissory notes known as bank notes which were not legal tender, but which were payable

in specie or gold on demand.

The importance that the chartered banks attached to this lucrative prerogative can best be illustrated by referring briefly to the discussion on banking that took place in the House of Commons 1869.

On May 14, 1869, Honourable John Rose, who had succeeded Honourable A.T. Galt as the first Minister of Finance of the new Dominion, introduced in the House of Commons his proposals for the reform of Canadian banking. The most important of these proposals were:

(a) the gradual reduction in the note issue of the banks at the rate of twenty percent a year until fully retrieved;

(b) in lieu of the privilege of issuing notes the banks were to be supplied with notes issued by the Dominion Government up to the amount of the capital stock paid in. Furthermore in order to obtain these notes the banks were required to deposit with the Government an equal amount of gold or Dominion notes. Finally the Government proposed to issue interest bearing bonds to cover the notes so issued to the banks. (See Breckenridge, Canadian Banking System, page 237)

These banking proposals were attacked both in and out of the House of Commons. The banks fought strenuously against the new proposals. The banks in Ontario and Quebec passed the following resolution:

> "That in any renewal of the charters, it is important for the best interests of the public

> that no changes of fundamental character be made in the system and particularly that the note circulation be preserved." (Breckenridge, page 242)

Over seventy petitions were presented to the House of Commons by bankers, cities, towns and boards of trade objecting to the proposals. The opposition was so strenuous that the Government had to abandon the proposals. Mr. Rose subsequently resigned as Minister of Finance to be replaced by Sir Francis Hincks. (See Breckenridge, pages 242 on)

Sir Francis dropped the proposals submitted by Mr. Rose, consulted the banks as to the nature of the reforms felt advisable and introduced in the House of Commons, the Bank Act of 1871 which was subsequently passed.

The Act retained the principle of the bank note issue against general credit for which the banks fought in 1869. (Breckenridge supra at page 248) In addition to providing uniformity the new Act also dropped the clause found in former bank charters "limiting the total liabilities of any bank to thrice the paid-up capital stock, plus its specie and government debentures". (Breckenridge page 249)

The significant fact in the opposition of the banks to Mr. Rose's proposals is that, as in the States at that time (See Nelson's Encyclopaedia, Vol.1, page 564, 2nd column) the banks had not yet realized that their prerogative to the issue of bank notes was to be replaced by a privilege of far greater importance, namely, the issue of credit. Thus they fought to retain what they thought was their most lucrative source of profit -- the issue of bank notes. Breckenridge points out at page 232 that the "loanable funds of the banks were derived from their capital, deposits and circulation". Of the three, the lending of bank notes provided the greatest source of revenue to the banks.

The various changes in the Canadian banking legislation since Confederation will be found in the MacMillan Report on Banking and Currency in Canada, pages 14 to 18. No useful purpose would be served by a review of all these changes.

3.- OPERATION OF THE PRESENT CANADIAN BANKING SYSTEM

Bank of Canada.-

The cornerstone of the existing banking system in Canada is to be found in the Bank of Canada Act.

Let me now say a word about the Bank of Canada.

The object of the Bank of Canada Act is set out in the preamble which reads as follows:

> "WHEREAS it is desirable to establish a central bank in Canada to regulate credit and currency in the best interests of the economic life of the nation, to control and protect the external value of the national monetary unit and to mitigate by its influence fluctuations in the general level of production, trade, prices and employment, so far as may be possible within the scope of monetary action, and generally to promote the economic and financial welfare of the Dominion: Therefore, His Majesty, by and with the advice and consent of the Senate and House of Commons of Canada, enacts as follows:-"

The basic technique used by the Bank of Canada to achieve this objective is through the sale and purchase of Canadian Government securities. Through these operations the Bank of Canada tightens or loosens the cash position of the banks as a whole. The procedure is exceedingly simple and works as follows. When the Bank of Canada sells Dominion of Canada bonds to the public, cash - legal tender - is drawn out of the chartered banks to pay for the bonds. This withdrawing of cash from the chartered banks into the hands of the Bank of Canada results in a reduction of bank cash reserves. Consequently the banks have to reduce their deposit liabilities by calling in some of their loans. This in turn results in a contraction of credit. Contrariwise when the Bank of Canada buys Dominion Canada bonds, either from the chartered banks or on the open market, the

Bank of Canada notes issued in payment of the bonds puts legal tender into the hands of the sellers which immediately thereafter finds its way into the hands of the chartered banks. This release of Bank of Canada notes into the hands of the public increases bank cash reserves, resulting in an expansion of credit.

Another simple but effective control over the ability of the chartered banks to make loans lies in the operation of the Canadian government's bank accounts. The cash deposit balance of the government can be switched from the chartered banks to the Bank of Canada and that operation will quickly reduce the cash reserves of the chartered banks and so directly affect the scope of the banks to make loans, having in mind the statutory requirements as to cash reserves.

Occasionally, officials of the Bank of Canada and the chartered banks meet to discuss credit conditions in general. Such discussions took place in February 1951. At which time officials of the Bank of Canada thought that credit was on the upsurge to a dangerous extent. They, therefore, asked the cooperation of the chartered banks in cutting back credit extension. As a result credit was restricted sharply until May 1952.

Cash Reserves:

In the early days of Canadian Banking the extent to which a bank could exercise its privilege of issuing notes and making loans, depended mainly on the amount of specie it held on deposit. Today a bank's privilege of issuing bank credit and making loans, depends mainly on the amount of its cash reserves. It is imperative therefore, to know something of the nature of cash reserves.

In the 1940 Canada Year Book at page 869, we read that before March the 11th, 1935, the cash reserves of the Chartered Banks

included "the gold and Dominion notes held by the banks in Canada and their deposits in the central gold reserves not ear-marked against the issue of bank notes."

When the Bank of Canada started operations in 1935 the chartered banks were required to turn over to the Bank of Canada, their gold reserves in Canada and their supply of Dominion notes, in exchange for Bank of Canada notes. For the first time the Banks also were required to hold cash reserves amounting to at least 5% of their deposit liabilities in Canada. In actual practice, this cash reserve ratio has been maintained by the banks at approximately 10% of their deposit liabilities.

It should be noted that the first Bank Act after Confederation, the Bank Act of 1870, contained no such provision requiring the banks to hold any reserves whatever in relation to their deposit liabilities. The banks were required to keep approximately one half of their cash reserves and never less than 1/3 in any event, in Dominion notes. There were changes in language from time to time in this early provisions of the Bank Act of 1870, but it was not until the Bank of Canada commenced operations on March the 11th, 1935, that the banks were required to hold cash reserves amounting to at least 5% of their deposit liabilities in Canada.

Cash reserves today consist of (a) deposits with the Bank of Canada and (b) notes of the Bank of Canada held by the banks. The statutory provision will be found in section 59 of the Bank Act which reads as follows:

> 59.- "The Bank shall maintain a reserve which shall, as provided in the Bank of Canada Act, be not less than five per cent of such of its deposit liabilities as are payable in Canadian Dollars and <u>such reserve shall consist of a deposit with the Bank of Canada and of Bank of Canada notes held by the bank</u>; and the bank shall also maintain with the Bank of Canada or elsewhere adequate reserves against liabilities elsewhere than in Canada and furnish such information as may be required by the Minister from time to time to satisfy him that such reserves against liabilities elsewhere than in Canada are so maintained."

Section 59 of theBank Act will now have to be read in conjunction with the new section 18 (1) paragraph 'o' of the proposed amendments to the Bank of Canada Act, which reads as follows:

18(1) The Bank may:

> "(o) alter the percentage of the deposit liabilities of chartered banks payable in Canadian currency that chartered banks are required by the Bank Act to maintain as a minimum average cash reserve during any month, but so that the percentage is not less than eight and not more than twelve; the Bank shall, not less than one month before the month in which any such alteration becomes effective, publish a notice of the alteration in the Canada Gazette, and the Bank shall not in any month increase the percentage by more than one;"

The deposit with the Bank of Canada referred to in Section 59 of the Bank Act is the account or deposit which each chartered bank keeps with the Bank of Canada, and constitutes a claim by a chartered bank against the Bank of Canada for Bank of Canada notes.

The inception of this account was the gold turned over by each bank to the Bank of Canada under Section 25 of the Bank of Canada Act when the central bank was first established. The deposit is authorized by Section 18 (m) of the Bank of Canada Act. The deposit does not bear interest.

Section 24 of the Bank of Canada Act says "such reserve shall consist of a deposit with the bank and of notes of the bank held by such bank". The interpretation has always been that the cash reserve could be kept by either a deposit or bank notes. In actual practice, however, and as a matter of good business the cash reserve is always represented partly by a deposit with the Bank of Canada and partly by Bank of Canada notes which the chartered bank owns.

It should be noted that the Bank of Canada notes in the tills of the chartered banks from day to day constitute that part of the cash reserve represented by Bank of Canada notes as required by Sectin 24. There is no question of requiring the banks to set aside separately Bank of Canada notes which will constitute part of the cash reserve.

How are cash reserves obtained?

What is the procedure by which a chartered bank increases its cash reserves or legal tender as the basis for issuing bank credit up to 10 times the amount of its supply of legal tender? There are 3 ways in which a chartered bank may obtain or increase its supply of legal tender.

1. A chartered bank may get Bank of Canada notes by the simple act of giving the Bank of Canada a cheque on the chartered bank's account in the Bank of Canada. The legal tender, i.e. Bank of Canada notes, are then turned over to the chartered bank and the amount debited to the deposit of the chartered bank in the Bank of Canada.

2. From time to time the chartered banks may sell some of its Canadian Government bonds or other securities to the Bank of Canada or to the general public. I understand that as a matter of policy the Bank of Canada does not encourage the banks to sell directly to the Bank of Canada, government securities out of the chartered bank's portfolio of securities for the purpose of obtaining legal tender or for any other purpose. The Bank of Canada encourages the chartered banks to sell its securities to the public when it needs to increase its cash reserves. With the cash reserves so obtained the banks are again in a position to expand bank credit up to 10 times the additional cash reserves or legal tender so acquired.

3. If the need for legal tender by the chartered bank is a temporary one the chartered bank may apply for a loan from the Bank of Canada. These loans carry 2% interest and as collateral government securities are deposited with the Bank of Canada. The loan is set up as a credit item in the borrowing bank's account in the central bank. The statutory authority is Section 18 subsection (1) paragraph (i) of the Bank of Canada Act. This procedure also increases the chartered banks' cash reserves which can be used for the further expansion of bank credit

on a 10 to 1 ratio. I do not think this provision of the Bank Act is used very often.

Bank loans:

Generally speaking there are four factors taken into consideration by a bank before making a loan. These are:

1. The credit worthiness or "real credit" of the borrower.
2. The industrial classification into which the proposed loan would fall.
3. The general economic outlook and the economic environment.
4. The ratio of bank's securities to its loan, that is to say, the bank's liquidity.

Over and above these considerations however, is the all important question of the position of the bank's cash reserve. This is the main consideration which would motivate a chartered bank toward refusing an otherwise acceptable loan. The primary obstacle is a difficult cash position. If there be a tight cash position the Bank of Canada can very effectively supply a remedy by increasing the over-all cash position of all the chartered banks by buying Canadian government bonds from the banks or making loans to the chartered banks and then taking the Canadian government bonds as security for the loan.

If however, a chartered bank is in a tight cash position and did not wish to sell securities and so get cash from the Bank of Canada the result would likely be a cut back of loans, i.e. a contraction of credit.

There are no specific provisions in the Bank Act or the Bank of Canada Act which control the procedures of the chartered banks in the matter of making or withholding loans. These are matters depending

upon the judgment of the bank officials, not a matter which the statute attempts to spell out in directives to the bank.

In considering the cash reserves of the chartered banks it is important to keep in mind that any change in the cash reserves, either up or down, effects the total bank deposits in all the banks by ten times that amount. This is by reason of the existing practice of a 10% ratio of cash reserves to deposit.

Cancellation of Note Issue:

With the establishment of the Bank of Canada in 1935, the privilege enjoyed by the chartered banks of issuing bank notes up to the amount of their paid-up capital was gradually curtailed until finally eliminated completely in 1950, insofar as notes issued for circulation in Canada was concerned.

The Bank of Canada first took over the issue of one dollar and two dollar bills from the Government of Canada.

The withdrawal from circulation of the notes of the chartered banks was done pursuant to the requirements of Section 61 (2) of the Bank Act of 1934 and Section 61 (7) of the Bank Act of 1944. Those sections laid down the manner in which the chartered banks were required to gradually withdraw their notes from circulation. Of particular interest are sub-sections (7) and (8) of Section 61 of the Bank Act of 1944 which read as follows:

> "(7) Each bank enumerated in Schedule A to this Act, except any such bank which has suspended payment of its liabilities as they accrue, shall within thirty days after the first day of January one thousand nine hundred and fifty pay to the Bank of Canada out of its balance with the Bank of Canada an amount equal to the face value of the notes issued by it intended for circulation in Canada outstanding on the said date and upon such payment being made such bank shall cease to be liable to redeem such notes; and if the bank fails to pay such amount within such period, such amount, together with interest thereon at the rate of five per centum per annum to the date of payment, may be recovered by the Bank of Canada by action."

"(8) Upon payment by any bank to the Bank of Canada under the next preceding subsection, the Bank of Canada shall, notwithstanding anything contained in any other statute, be liable to redeem all notes issued by such bank intended for circulation in Canada thereafter presented to it. 1954, c.24, s.62 am."

As of December 31st, 1953 there were still outstanding chartered bank notes in the amount of $10,198,229.60 issued for circulation in Canada, according to the Report of the Bank of Canada for 1953. These notes are not in the hands of the banks because such possession would be contrary to the Bank of Canada Act. They are doubtless held in various kinds of safekeeping or as souvenirs by members of the public. Many of them may have been burned or otherwise destroyed.

From this brief review of Canadian banking legislation and Canadian banking practice, one major point stands out. While originally the most lucrative privilege of banking consisted in issuing bank notes up to three times the amount of the capital stock paid in and the amount of specie on deposit, today the most lucrative function in banking is in the privilege of issuing bank credit up to 10 times the amount of cash reserves held by the banks.

It is interesting to note that there was no great outcry or protest by the banks when they faced the loss of this note-issuing privilege, similar to the outcry that took place in 1869 when the same measure was proposed. Why? Because the banks had discovered that the returns - or profits - to be derived from the privilege of issuing bank credit was far greater than the profits to be made from the issue of bank notes.

Nature of Bank Credit:

Just what is the nature of this bank credit? It is an expansion of credit in the books of the banks up to 10 times the amount of cash reserves or legal tender held by the banks. This bank credit

not tangible money, in the sense that it is something that you can ry in your pocket. It is something that exists in the ledgers of banks only. The debit and credit entries in this ledger are transferred m the account of one person the account of another by the use of a cheque. t is why, this bank credit money has been called in some cases "cheque ey" or "bookkeeping money" or "fountain pen money". We in Alberta have ed this expression "fountain pen money", to denote this type of money. I indicated at the outset, we were ridiculed from one end of the country the other, for calling this "bank credit money" "fountain pen money". were accused of advocating "funny money" when we were explaining the use bank credit money. One of our greatest critics was Stephen leacock. I ve already made a reference to the article written by StephenLeacock, in e issue of MacLean's Magazine of May the 1st, 1943. I indicated then at he had already changed his views about the money system before he died. epheh Leacock did not hesitate to refer to this "bank credit money" as ountain pen money". The Committee might be interested to hear Leacock's n words.

In the article referred to Stephen Leacock deals with the estion, where is the money coming from after the war, to put two million nadians to work when the war is over? In order to answer the question, eacock gives an illustration in the form of a parable:

> "Four businessmen were stranded, shipwrecked and penniless, upon an island in the South Seas. It was a beautiful island. Breadfruit grew on every tree, coconuts dangled at the tops of palms, while beds of oysters lay near the shore.
>
> But for the businessmen it was useless. They had no "funds" to develop the island; with an advance of funds they could have gathered breadfruit and made bread. But without funds! Why, they couldn't! They must stay hungry.
>
> "Don't you think," said the weakest among them— a frail man (he had never been able to raise more than a million dollars; he'd no strength)-- "Don't you think," he said to the biggest man, "you could climb that palm tree and throw down coconuts?"...."And

who'll underwrite me?" asked the other.

There it was! They were blocked and helpless; couldn't even get an advance to wade into the sea for oysters.

So they sat there on the rocks -- starving, dejected, their hair growing long. They couldn't even share; there was no barber union.

On the fourth day the frail man, who was obviously sinking, said:

"If I die I want you to bury me over there on that little hill over-looking the sea."

"We can't bury you, Eddie," they said. "We've no burial fund."

They fell asleep on the sands. But the next morning when they woke up, an Angel was standing beside them. They knew he was an Angel although he wore a morning coat and a top hat, and had grey striped trousers with spats above his boots.

"Are you an Angel?" they asked.

"Pretty much," he asnwered. "That is to say, I am director the Bank of England, but for you just now it's almost the same thing."

"Funds, funds!" they exclaimed. "Can you advance us funds?"

"Certainly," said the Angel. "I came for that. I think I see a fountain pen in your waistcoat pocket there. Thank you.... and that ten cent scribbler.......much obliged. Now then up you get! Light a fire, go and collect those oysters, pick some bread-fruit, chase that wild goat and I'll arrange an advance of funds while you're doing it."

As they sat around their fire at supper the Angel explained it all out of the scribbler.

"I have capitalized uour island at two million dollars (that's half a million each) and I have opened a current drawing account for each of you of a hundred thousand, with loans as required...."

The extent to which the banks create financial credit - or fountain pen money - and issue it to the public as a substitute for cash money, can best be realized by a brief look at some of the banking statis-tics compiled from year to year in the Canada Year Book.

I would not like to take the time of the Committee to read all these statistics. I would like to call your attention to certain figures

however, and with your permission would like to file the statement as an appendix to this submission.

A reference to the table will indicate that in 1861 the total deposit liabilities amounted to 19 million dollars. The paid up capital was 26,891,224. Under the legislation in effect at that time the banks were therefore in a position to issue twenty six million in notes. They actually had issued however, only $13,600,000. This amount of note issue, plus the holdings of specie and government notes, amounted to more than the total deposit liabilities. This was the situation prevailing up to that time.

The following year however, 1862, we note a change. The deposit liabilities of $19,800,000 exceed the total issue of bank notes plus the bank holdings of specie and government notes by nearly 4 million dollars. The deposit liabilities however, are still some $6,600,000 less than the paid-up capital.

If you now look at the figures for the year 1873 you will find that for the first time the deposit liabilities exceed the paid-up capital and bank holdings of specie and Dominion notes. The amount of the excess is some 2 million dollars. Thus for the first time we find definite evidence of expansion of credit in the books of the banks. The extent to which this practice increase can be seen by looking at the figures given for the ensuing years. Let us take a look at the year 1934, the year the Bank of Canada Act was passed limiting the right of the banks to issue notes. The notes issued by the chartered banks and in circulation in 1934 amounted to $135,537,793.00. The paid-up capital of the banks was $144,916,667.00. This represents the amount of notes the banks could have issued had they so wished or found it necessary. Add to this their holdings of cash specie and Dominion government notes. The total is $214,419,280.00. As against this the deposit liabilities amounted to $2,548,720,434.00

The position at the end of 1953 is the same, except that now the banks do not issue any more notes.

Change in banking practice:

It will be plain from these statistics that there is not too much resemblance between banking practices today and banking practices when the Bank of England was organized. It is true however, to say that the fundamental concept of modern banking is still the same, namely the privilege of issuing money, whether it be in the form of bank notes, or bank credit, granted to the banks by the State.

This change in the nature of modern money has been recognized by most economists and bankers. I will refer to just two authorities. The first is Alvin H. Hensen, Professor of economics at Harvard University. In his book "Fiscal Policy and Business Cycles", published in 1941, Professor Hansen states at page 176: "Modern money consists of demand deposits".

Again at page 177, he states:

> "The modern banking syste, with its freedom to create demand deposits on a fractional reserve basis, essentially issues "paper money" through the loan-deposit operations. And this 'multiplication of currency' has given us an ever-expanding money supply corresponding more or less to the increasing volume of trade."

I query whether it is necessary to belabor this feature of banking practice today because it is widely recognized. However, to establish this point beyond any doubt I want to quote statements made by Graham Towers, Governor of the Bank of Canada in answer to questions submitted to him by members of the Banking and Commerce Committee in 1939. These are some of the points established by Mr. Towers:

> "Q: Ninety-five per cent. of all our volume of business is being done with what we call exchange of bank deposits— that is simply book-keeping entries in banks against which people write cheques?

Mr. Towers: I think that is a fair statement."(p.223)

"Q.: When you allow the merchant banking system to issue bank deposits--with the practice of using cheques -- you virtually allow the banks to issue an effective substitute for money, do you not?

Mr. Towers: The bank deposits are actually money in that sense.

Q.:........as a matter of fact they are not actual money but credit, bookkeeping accounts, which are used as a substitute for money?

Mr. Towers: Yes.

Q.: Then we authorize the banks to issue a substitute for money?

Mr. Towers: Yes, I think that is a very fair statement of banking." (P.285)

While many other authorities could be cited, I think sufficient has been given to establish the actual banking practice today under the Bank Act and the Bank of Canada Act.

I would not like to examine with you the impact of our banking policies and practices on the Canadian economy.

PART II

DEFECTS OF THE PRESENT BANKING SYSTEM

From the foregoing brief review of the development of banking principles and the history of banking in Canada it is now possible to draw some definite conclusions. I will deal with one which I believe constitutes the greatest defect or weakness of our Canadian banking system. I do not want to suggest that this defect is to be found only in our banking system. It is part of banking policies and practices in countries all over the world, including the United States, Great Britain, France, etc. I shall however, confine myself to the Canadian scene because it is Canadian Banking Legislation, and the effect it may have on the Canadian economy with which this Committee is concerned.

1.- Accumulation of Debt.

The main disability or weakness of the Canadian Banking system is that it results in the accumulation of an ever increasing burden of debt on the Canadian people that can never be paid.

As already explained the original charters of the early banks granted them authority to issue notes up to three times the amount of specie held. You will recall also that banks were required to redeem all the notes issued in specie. Some banks managed to do so and they still are in operation today. Other banks failed, because they were unable to meet this requirement. At pages 784 and 785 of the proceedings of this Committee will be found a statement showing the fate of the 110 bank charters which were active at or incorporated since Confederation. Only 11 banks still are in operation .

The notes so issued were put into circulation in the form of loans — which of course had to be paid back with interest. Naturally banks are business institutions. They operate in a busness-like manner,

seeking to make a profit out of their operation of their business for the benefit of their shareholders. We must agree they are doing a mighty good job of it.

The profit made by the banks is derived mainly from the interest received on loans. At first, profits were limited simply because loans were limited to bank notes issued up to three times the paid-up capital stock plus the specie -- or coins -- held by the banks on deposit. Today however, interest profit is far greater because banks are now allowed to make loans in the form of bank credit up to 20 times the amount of legal tender they hold, although in actual practice they seldom exceed a 10 to 1 ratio.

Poker Game.

Let me illustrate how debt accumulates by referring to a game of poker. Let us suppose that five people are playing poker and each has $10.00 making a total of fifty dollars. The understanding is that the owner of the house is entitled to a rake-off of 10¢ out of every pot played. The game starts and at the end of 100 hands, one man has lost his $10.00. That means that the other four players still have forty dollars, because the owner of the house has taken out his rake-off of 10¢ a pot, for a total of $10.00. At the end of a 200 hands, another man drops out. There are now three players left. But all the money they have among them is $30.00, because the house has accumulated a stake of $20.00 by way of his rake-off. Finally by the time 500 hands have been played, the house reaches out and says, "Thank you boys, this is my rake-off". The house has accumulated the $50.00, and the five players have nothing. But then they start again. They borrow $10.00 each from the house-owner and each gives him his watch as security. By the time they have played another five hundred hands, they have lost everything once more -- including their watches. They borrow once more giving their shirts as security. At the end of this cycle, they not only owe the house

$100.00, but they also have lost their shirts!

Collectively the more they play, the more they lose. They cannot possibly win. The more they borrow to play under the rake-off system, the more are they going into debt. Collectively they cannot win!

Our poker game is a fair illustration of banking practices today. Banks make loans up to 10 times the amount of legal tender in the country. They charge interest on these loans. It is only a matter of time before they have legal title to all the currency in the country through interest charges -- rake off! By loaning again, they accumulate title, not only to the legal tender -- but through the securities they have taken, to the real wealth of the country as well.

Second Illustration.

Let us consider another example. For this illustration let us take a community of 10 people, each having $100.00, or a total of $1000.00. This sum is deposited with a custodian for safekeeping -- or if you wish a bank. This custodian, like the English goldsmiths of old, acts as bookkeeper for the members of the community, records their transactions, transfers accounts from one member of the community to another as he may be directed. In due course, some of the members of the community approach the custodian for a loan. The loan is made. As a matter of fact with $1000.00 in the till the custodian makes loans totaling $10,000.00. Remember that this is the current procedure followed by the chartered banks under the Bank Act.

What happens? The custodian charges the borrowers 6% per annum on their loans. At the end of a year, the borrowers have to pay back -- not $10,000. but $10,600.! How can they do it when there is only $1000.00 in the community? Well, they manage to repay the $10,000.00 in loans. This represents only the principal sum advanced. As to the interest of $600.00, this can only be paid to the custodian out of the funds -- or

cash -- originally deposited with the custodian. Therefore, the community has title to $600.00 less in money than it had at the beginning of the year. It now owns only $400.00 from the original sum.

Let us repeat the process now a second year. The custodian again loans out another $10,000.00. When this amount is repaid at the end of the 2nd year, there still is an obligation to pay back another $600.00 in interest. But now can the community as a whole do it? There is only an amount of $400.00 cash left belonging to the members of the community. How then can they pay back more than they have?

The answer is very simple. The deficit is paid in one of two ways:

1. - By obtaining a further loan from the custodian, in which case it will be evident that at the end of the third year the community is still worse off. After borrowing another $10,000.00 it will then owe in interest charges another $600.00, which along with the deficit of the previous year of $200.00, makes a total deficit of $800.00. At this point not only have they lost their original stake of $1000.00, but they are in debt to the extent of $800.00. Should they continue to borrow it is obvious that the position can only become increasingly worse, UNLESS, recourse is had to the second alternative. i.e. -

2. - Default, repudiation or bankruptcy. Let me explain.

Up to now we have considered all the members of the community on the same footing. Actually, some members of the community through their initiative and enterprise are going to place themselves in a stronger financial position than others. It is logical to assume therefore that these members of the community will be able to pay back their loans in full -- along with interest, but only at the expense of others, especially in the second, third and subsequent years. This is because jointly, they cannot pay back more than they got. If the custodian only puts into

circulation $10,000, and the members of the community have no other funds, then all they can pay back jointly is the original sum of $10,000.00 They cannot in addition pay $600.00 in interest charges, if it does not exist. This is in accordance with the old latin maxim - nemo dat quod non habet - a person cannot give what he has not got.

The objection that will be raised of course, is that the members of the community using the loans, increase their production of goods beyond their own needs. They are now in a position to sell their surplus goods to the neighbouring community and thus obtain the necessary funds to pay the interest on their loans.

It is not obvious however, that the neighbouring community is in exactly the same position, trying to sell some of its own surplus commodities to the first community for the purpose of obtaining from the first community some of its funds in order to meet the interest charges on the loans advanced by its own custodian? And all the communities in the world are endeavouring to do the same thing. Some succeed, but only at the expense of their neighbouring communities, in the same manner that some individuals can pay off their debts, along with the interest charges thereon, but only at the expense of other individuals.

Impossibility of paying interest.

You cannot pay back what you haven't got, and if the bank is only advancing $10,000.00 to a community, that is all the community can pay back. If all the banking systems in the world are advancing one thousand, one million, one billion or one trillion dollars to all the nations in the world, the sum total advanced is all that these nations jointly can pay back. They can only pay interest thereon by borrowing from the same source to do so.

True, some nations may be able to meet their obligations

in full along with the interest charges but only at the expense of other nations. Somewhere along the line someone must default, because you cannot pay back to the banks more than the banks have put into circulation. That is the viciousness of the present banking principle and banking practice. It is inherently a debt creating system. To pay off one debt along with the interest, you have to incur another debt, or else default, repudiate your obligation or go into bankruptcy. There is no other way. The history of the world is full of debt repudiation, default and bankruptcy.

Let us look at the facts relating to private debt. From a perusal of various issues of the Canada Year Book we have gathered the following statistics dealing with commercial failures — bankruptcies — in Canada during the past 30 years.

COMMERCIAL FAILURES

1923	$3,408	1939	$1,392
1924	2,319	1940	1,173
1925	1,996	1941	1,008
1926	1,773	1942	737
1927	1,841	1943	421
1928	2,037	1944	277
1929	2,167	1945	272
1930	2,402	1946	278
1931	2,216	1947	545
1932	2,420	1948	813
1933	2,044		
1934	1,532		
1935	1,314		
1936	1,198		
1937	1,126		
1938	1,219		

It will be noted that these add up to a total of $37,928. Nor do these figures include the number of proposals made under the Farmers' Creditors Arrangements Act. These failures correspond to some of the poker players in the early part of the game who were caught in the middle and were unable to pay back all their obligations.

To illustrate more fully the situation in regard to private debt, I want to refer briefly to the practice of buying on credit. The Calgary Albertan of January 20, 1954, under the heading "Consumer Credit Bill Record $1,772,000,000" published the following information in connection with a Bank of Canada statement on credit buying.

> "OTTAWA - Another boost in instalment-plan buying pushed Canada's consumer credit bill to a peak of $1,772,000,000 on Sept. 30.
>
> But there were signs the big on-the-cuff buying splurge that followed removal of credit controls in April, 1952, was nearing the saturation point.
>
> The 1953 third-quarter rise between June 30 and Sept. 30 totalled only $51,000,000, a Bank of Canada survey showed Monday. This compared with the $175,000,000 jump in the second quarter of 1952.
>
> In the 12 months ending last Sept.30, the outstanding credit bill had made the biggest jump in history -- a rise of more than $400,000,000 as Canadians increased purchases of automobiles, household goods, clothes and other items on easier credit terms.
>
> This heavier credit buying caused concern last year among financial experts. Bankers, particularly, warned that shopkeepers may be selling too much on terms. In time of difficulty they might have trouble collecting debts and paying of bills....."

U.S. Private Debt.

Alvin H. Hansen, Professor of Economics at Harvard University in his book, "Fiscal Policy and Business Cycles", at page 161, gives the following figures for private debt in the United States as at 1937:

Railway	13,109,000,000
Industrial	7,762,000,000
Public Utility	13,874,000,000
Farm Mortgage	7,082,000,000
Urban Mortgage	25,508,000,000
Total	70,335,000,000

It will be noted that these figures represent only debenture debts of record, and not debts on promissory notes, or credit buying, etc.

At page160 of the same book, Professor Hansen quotes some very illuminating figures to show that in the past 40 years "private debt has remained substantially equal to the national income". Here are the figures (in billions of dollars):

Year	Nat'l Income	Private Debt
1902	$18.4	$17.0
1913	31.5	32.2
1929	82.9	84.2
1937	71.2	70.3

The World Almanac of 1953, at page 748, gives the following statistics on the growth of private debt (individual and noncorporate) in the U.S.:

	Ind. & Noncorporate	Corporate	Total Private Debt
1919-	43.9 billion	53.9	97.2 billion
1929-	72.6 "	88.9	161.5 "
1935-	50.6 "	74.8	125.4 "
1945-	55.5 "	85.3	140.8 "
1950-	110.0 "	136.4	246.4 "
1951-	121.2 "	155.8	277.0 "

Public debt:

We find a similar picture in the field of public debt. It is claimed by some people that because certain capital expenditures are going to benefit future generations, the proper course is to borrow money for these capital expenditures, and let the future generations share in paying off the debt. The argument to borrow for war is not quite the same, but the reasoning is. It is something like this: "Let the future generations pay off the war debt. We have had to suffer enough during the war in order to keep our country safe for Democracy. It is not asking too much for future generations to pay off the financial obligation we incurred to maintain liberty and freedom in the country for our children and grandchildren".

And yet, under the present debt creating system, this will never be repaid. In his book "A World In Debt", Freeman Tilden deals with this argument very briefly and very concisely. He puts it in this manner:

"We are posterity. We do not pay. Therefore posterity does not pay".

Is any further explanation required. We, the present generation, are not paying the debt incurred by our ancestors. On the contrary, we are increasing the burden of debt still more and leaving it for our children and grandchildren to look after. Will future generations be able to pay the debt incurred by our ancestors (which we have not been able to repay) plus the debt that we ourselves have piled on top of it? from our ancestors? Let us take a look at some figures, which will explain the position better than any amount of argument.

Debt in Canada:

Let us take first the debt of Canada.

We started off in 1867, with a net debt inherited from the the provinces. Here is the story of that debt as found in the Canada Year Book issues of 1938, 1943 and 1952-53.

Year	Net Debt	Net debt per Capita	Interest Paid on debt	Interest Paid per capita
1867	75,728,642	21.87		
1887	227,314,775	49.14	9,682,929	2.09
1913	314,301,625	41.18	12,603,882	1.65
1919	1,574,531,033	189.45	77,431,432	9.32
1929	2,225,504,705	221,91	124,989,950	12.46
1935	2,846,110,958	259.94	138,533,202	12.67
1940	3,271,259,647	287,43	129,315,442	11.36
1945	11,298,362,018	935.91	318,994,821	26.42
1952	11,185,281,546	775.14	432,423,082	29.97

Is this accumulation of debt on the part of Canada something to be proud of? What are the chances of posterity paying the debt we have incurred when we ourselves are unable to pay the debt incurred by our ancestors? If debt is an indication of prosperity why not pile up more and more debt?

But this does not represent the total public debt in Canada. To the total net national debt as of 1952 of....11,185,281,546.00

let us add on total net direct and indirect provincial debts as of 1949 of..	2,679,811,000.00
and total municipal and school debts as of 1950 amounting to..	856,455,268.00
(Can. Yr. Bk. 1952-53 P.1077)	15,721,547,814.00

Thus the total public debt in Canada, National Provincial, municipal and school amounts to a staggering $15,721,547,814.00.

In a Parliamentary Return for C.E. Johnston, it was revealed that since 1868, Canada has paid $8,045,608,148 in interest on the national debt alone. It was further revealed that it cost to reservice the debt during that time $329,219,003. Yet as at the end of December 1952 our net national debt stood at $11,185,281,546.00!

<u>U.S. National Debt</u>: The history of the national debt of the U.S. is most revealing.

Historically the American people have always been opposed to debt. In the early days of the American History however, it was recognized that Government borrowing might be necessary for the purpose of obtaining the large amounts of money required to fight wars. In the early days this was the only excuse recognized for the incurrence of national debt. Even under those circumstances it was argued that sinking funds should be established for the purpose of reducing just as fast as possible

government debt incurred as a result of war.

In the book "Our National Debt" prepared by The Committee on Public Debt Policy appointed by the Falk Foundation, we are informed that in 1790 the public debt of the American States was 72.4 million dollars (P.8). By 1812 this debt was reduced to 45.2 million (P.12), but by 1816, following the war of 1812 the debt had again risen to $129,000,000.00 (P.12). Following the civil war in 1865, the debt had increased to $2,675,000,000.00 (P.12). The net reduction from 1865 to 1914 was $1,487,000,000.00, and the national debt in 1914 stood at $1,188,000,000.00 (P.168). By 1919, after the first world war the United States' debt had increased to $25,482,000,000.00. During the prosperous twenties there was a decrease of some nine billion dollars, and in 1930 the debt stood at $16,185,000,000.00. By 1936, in the short space of six years, the American debt was doubled and reached $33,779,000,000.00. By 1943, when the United States had entered the second World War, the debt stood at $136,696,000,000.00. The legal limit permitted on the national debt by statute in the United States was $275,000,000,000.00. This figure has now been reached -- a situation which led to the following editorial being published in the Saturday Evening Post of February the 6th, 1954:

"<u>Are We Going to Borrow Ourselves Into Prosperity?</u>"

By Wilfley Scobey

The United States has now gone twenty-one years without a real depression. This stands as a record. The Keynesians and the leftists who infest our colleges and universities will claim this is largely due to their policies and is but proof of their theories. This is pure bunk, because the United States of America has been living to a large degree on borrowed money for the past twenty-one years. If a recession has been postponed, it is at the expense of the value of the dollar.

It is almost as though a family itself, twenty-one years ago, was hard-up and in sore straights. So the family, already owing the bank $19,000 went down and borrowed a few thousand more. That means they now had cash -- plenty of cash. Mama bought a new fur coat, Pa a new car, the kids each a new bicycle. This was prosperity! When that money ran out, Pa simply went down to the bank

and borrowed again. This kept up for twenty-one long years, year after year, until Pa finally owed the bank $275,000, the limit of his credit.

The United States can be said to be almost identically in that predicament today. Twenty-one years ago the public debt was only $19,000,000,000 and we have borrowed and borrowed until just recently, when the public debt reached the limit of its credit, of $275,000,000,000. No wonder the Keynesian professors kept dishing out the same line of bilge water!

Were this country normal, which it is not, the exceeding of the legal debt limit would have caused a furor last month when the limit of our credit was reached. The bemused and well-regimented public said nothing.

So what are we going to do now? Are we going to borrow some more?"

(Editorial - Saturday Evening Post - February 6,1954)

British Debt:

The same situation exists however, in every leading country in the world, except maybe Russia. Let us take a very brief look at the British Debt.

The public debt of Great Britain started in 1693 when Charles Montague who was at that time head of the treasury in Great Britain, proposed that one million pounds be borrowed for the purposes of the kingdom, the repayment thereof to be secured by the pledge of certain revenues to the State, mainly a tax on beer and liquor. It was for the purpose of making this money available to the King, that the Bank of England was established by a group of private individuals. The sum of one million two hundred thousand pounds was raised, and lent to the Crown at 8%. Needless to say Great Britain to this day has never been out of debt.

The increase in the public debt of Great Britain is very neatly summarized in professor's Hansen's book "Fiscal policy and Business Cycles". At page 136 we find the following statement:

"The period from 1690 to 1815 in England is divided almost equally into years of war and years of peace. Regularly in the war years the public debt arose, while in years of peace the budget was more or less balanced, and at times some reduction in the debt occurred. It is evident, however, that there is a marked upward trend throughout the entire period which assumes almost a straight line on a logarithmic scale. Thus, overlooking the relatively short-run fluctuations about the trend, it may be said that the British public debt for this period of the one hundred and twenty-five years was rising at approximately a constant percentage rate of increase. Between 1815 and 1914 the public debt ceased to rise and, considering the whole period, declined by a very moderate amount, so that by 1914 it stood 21.8 per cent under the 1815 level. There were some fluctuations up and down, notably the temporary rise in the debt during the Boer War, followed by a subsequent fairly rapid retirement. Then came the prodigious rise in the public debt incident to the first World War, so that the postwar debt stood in relation to the total national income at about the same level as in 1815. In both 1818 and 1923 the debt was twice the national income."

In the 1953 edition of Whitaker's Almanack at page 566, we are given the following figures representing the national debt of the United Kingdom since the turn of the Century:

1900-01-	703,934,000	pounds
1914-15-	1,161,952,000	"
1918-19-	7,451,050,000	"
1930-31-	7,582,900,000	"
1937-38-	8,148,985,000	"
1940-41-	10,782,577,496	"
1945-46-	21,365,890,692	"
1950-51-	23,124,937,361	"
1951-52-	22,287,640,031	"

Debt of France:

The story is the same in France.

When Louis the XIV ascended the throne of France, public debt was unknown in France. The cost of financing the Government along with all the extravagance of the Court of Louis the XIV, was met by taxation. True, taxation was extremely heavy, but Colbert who has been called the ablest controller in Europe at that time, strenuously objected to any borrowings by his soverign master. Colbert's successor was a man named Louvois, who immediately encouraged Louis the XIV to borrow to meet his extravagant expenses.

This policy was condemned by Colbert, who told Louvois that loans would only increase the Kingdom's extravagances. "You will have to raise taxes to pay the interest. If the loans have no limit neither has the taxes" (Tilden, "A World In Debt").

When Louis XIV died the Kingdom of France was indebted to the money-brokers to the tune of two and one half billions of gold livres. Under Colbert and financing through taxes, the country prospered. Factories were opened, roads were improved, but as soon as the King started borrowing to meet payment of his extravagances, the factories were closed by the heavier burden of taxation. The roads deteriorated and the army was unpaid. This is the situation that existed when Louis XV ascended the throne of France, taking unto himself a country that had already incurred a debt of two and one half billions of gold livres.

The extravagances of the Crown - and borrowing to meet them - were maintained and increased during the reign of Louis XVth and Louis XVIth culminating in the French Revolution. With the rise to power of Napoleon there was a change in the method of government financing. Napoleon, after having seen the follies of debts incurred by the last French kings, steadfastly refused to borrow to finance the Napoleonic wars, with the result that at the end of his career, the French Public Debt, was relatively small compared to the debt of Great Britain at the same period. The story of the National Debt of France is again summarized by professor Hansen, in his book "Fiscal Policy and Business Cycles", at page 136 in the following terms:

> "At the close of the Napoleonic Wars the French Public debt, in contrast with the situation in England, was small. Her experience from 1815 to 1914 was quite divergent from that of England. Whereas, the English debt became a stabilized and indeed gradually decline, the French debt rose with temporary interruptions through the nineteenth century up to the time of the first World War. There were, of course, periods of varying length in which the budget was balanced and in which some retirement of the public debt occurred, but the trend throughout the century was upward. The steepness of the rising trend

varied considerably at different points in the century. With the first World War came -- as also in England, but at a far more rapid rate -- an unprecedented rise in the debt of a magnitude so great as to result in (or to accompany -- the casual interrelationship is a complex one) a five-or six-fold price inflation."

These cases illustrate the story of public debt the world over. It is the story of accumulating debt -- a debt that cannot be paid except by default and repudiation.

Default and Repudiation

The history of public debts throughout the world is full of defaults and repudiations. One has but to read Tilden's book "A World in Debt" to become acutely aware of the many defaults and repudiations that have taken place, not only in European countries, but also in the States.

At page 274, Tilden gives us the list of bankruptcies suffered by various nations in the world, previous to the World War of 1914. These are:

"Spain in 1820,1831,1834,1851,1867,1872; Greece in 1836 and 1893; Denmark in 1812,1813; Prussia in 1807,1813; Austria in 1802,1805,1806,1811,1816,1818, and 1868; Holland, 1814; Portugal, 1850,1853,1892; Russia, 1839; Turkey,1875, 1881."

Let us take a look at some more modern figures. In harry Scherman's book "The Promises Men Live By", we read at page 249, the following statement:

"On December 31, 1936, American citizens had lent money to forty nations on their deferred exchanges. Of these, twenty-three had defaulted on part or all of the promises. The total sum in default was 36 per cent of the total relinquished in the first place, and promised in exchange!"

On the same page we read the following statement:

"The League of Nations in one of its publications gives the total long promises of all the sovereign States. They added up, as previously stated, to about $149,000,000,000 in 1936. Sixty-two governments were listed in this record. Of these, twenty-seven were in default at the time, either as to principal or interest. This is over 45 per cent.

This is, of course, only the record of the promises still existing. But following the War, there was a well-nigh universal welching on the part of governments in the deferred exchanges they

> had entered into with their own citizens and foreigners -- both by direct repudiation and by <u>monetary subterfuge</u>."
>
> Prior to the World War, the national debt of the active belligerents was about $32,000,000,000. During the conflict, probably about $186,000,000,000 more were borrowed. Except for that which was borrowed by Great Britain and the United States from their citizens, almost the entire balance of this enormous sum of close to $218,000,000,000 has not been paid, and will never be paid, to those who trusted the promisors. Russia wiped out all her debt out of hand. Germany cancelled the astronomical billions she had borrowed from her citizens by paying it in a valuless mark --- a grim joke. Austria did the same. France and Italy wiped out from 80 per cent to 90 per cent of what they owed their citizens, and lately have wiped out a good portion of the balance. All the smaller nations of Europe involved in the War on both sides -- Belgium, Jugoslavia, Greece, Rumania, Turkey -- followed the same course of action."

<u>American repudiation:</u>

But even France and Great Britain have had to default on their debts. The story of reparations and the default on the debts incurred in World War I are too well known to require repetition. What may not be so well known is the story of debt default and repudiation by our great neighbour to the South, the United States. Let us take a brief look.

At page 337 of his book "A World In Debt", Tilden gives us the story of the repudiation of the debts incurred by the Southern States before the Civil War, amounting to seventeen million dollars of principal and two hundred and fifty million dollars of interest, This repudiation took place despite the solemn assurance that had been given by Daniel Webster to European creditors, that it was "unthinkable", that any American State would repudiate its obligations.

From 1873 to 1914, at a time when she was the creditor nation of the world, Great Britain advanced monies to several American States, namely, Virginia, Indiana, Georgia, Florida, North Carolina, Tennessee, Alabama, Mississippi, Louisiana and several others. These loans were all repudiated in full or in part. As a matter of fact in the case of Mississippi, after

the State Supreme Court had declared that the debt due to Great Britain was a valid debt and should be paid, the State Legislature enacted legislation making it unconstitutional for these debts to be paid!

I will not mention the repudiation of the debt incurred by the "Carpet-bagger" in the Southern States after the Civil War, because of the circumstances surrounding the State borrowings at that time.

The U.S. Government itself did not hesitate to repudiate one of its most solemn debts incurred under circumstances which possibly amounts to ingratitude. It was the debt owed to Caron de Beaumarchais, a Frenchman who not only pleaded the cause of the American Revolution in France, but supported his words with deeds and made large advances to the cause of the Revolution in money and goods. Alexander Hamilton in 1793, established the debt owing by the new American Democracy to de Beaumarchais, at the sum of two million two hundred and eighty thousand francs. Instead of showing its gratitude to this Frenchman for all the assistance, financial and otherwise, the United States had received during the fight for Independence, and paying off the debt in full, it started a squabble which lasted until 1835, when finally, in desperation, the Frenchman accepted eight hundred thousand francs in settlement of the indebtedness due him of two million two hundred and eighty thousand francs.

Devaluation and Depreciation:

But there is another method of repudiation - a far more subtle method than outright refusal to pay - that is repudiation by depreciation or devaluation of the currency, or by changing the meaning of a monetary expression. Not only is this method more subtle but it is also hypocritical. It is what Scherman has called in his book "The Promises Men Live By" - monetary subterfuge". It was the method used by Germany after the 1st World War to

cancel its debt. Before 1914, the German Mark by definition was valued as 5.15 grains of gold. In 1923, the German debt amounted to over five hundred trillion "marks". This debt was paid off by the simple expedient of declaring that the "mark" no longer existed, and a new monetary unit was established, namely, the "Reichsmark". The value of the Reichsmark was also established at 5.53 grains of gold. All the German bonds issued till then were payable in "Marks". They could not be paid after 1923 because this "mark" no longer existed!

The same process was used even in the United States. On March the 6th, 1933, the U.S. Dollar was valued at 23.23 grains of gold. On January the 30th, 1934, President Roosevelt changed the definition of the U.S. Dollar, making it worth only 13.85 grains of gold, or 1.35th of an ounce of gold. By this "simple, brazen and fraudulent changing of the meaning of an important word" as Scherman calls it, the creditors of the United States - the bondholders - discovered that the money they received when their bonds were paid was worth only a little more than half the money they had lent their government in good faith. (See Scherman, "The Promises Men Live By", Pages 353-355).

This method of repudiating debt has been practiced by every leading country in the world. Here is what Scherman says about this aspect of the question at page 251 of his book, "The Promises Men Live By":

> "Now, the stark fact is that every important sovereign government on the planet, since 1929, wiped out a good part of its promises by this device, and several of them have used the device more than once. Our own nation, let it stand forever to our shame, was among these respectable pocket-pickers -- for the first time in our history as an organized nation; and with us, the airiest and most inventive nationalizer of all, Great Britain. Needless to say, this device of governments works successfully only because almost all of those who are gulled do not understand what is happening."

In the United States there was an attempt made to make the Government pay its bonds in the same kind of currency and the same value

currency as that lent to the Government when the bond was issued.

Scherman refers to this again in his book "The Promises Men Live By" at page 356 where he states the following:

> "Because our government went 'off gold' during the Civil War, it became the practice to specify in long promises that the second half of the exchange should be completed in gold coin of 'the present standard of weight and fineness'. In the famous 'gold clause decisions', early in 1935, a Supreme Court majority held that citizens could not protect themselves, in this straightforward fashion, against the fraudulence of the government. This was clearly the ultimate purport of these decisions, which as a precedent will certainly plague our children for generations to come. For it now sets up, as a sacred doctrine, what had been the pernicious practice of rulers: that these, the most crucial of all economic promise, need not be kept by the peomisor, and mere expediency -- not necessity -- may, if the government wishes, be considered the guide."

The same procedure was carried on by Great Britain. In Tilden's book "A World In Debt", we find the following note at the bottom of page 269:

> "The decision of the British Government to pay interest on its $5\frac{1}{2}\%$ dollar bonds in depreciated paper dollars, with an option to convert to a lower coupon of sterling, was not very naughty, as financial jockeying now goes, but it was not up to England's high mark. The 'Times' of London shook its head with disapproval: 'In these circumstances, many will think that the Government have missed a find opportunity to strike a blow for the sanctity of contract, which is being violated all too easily today."

But these illustrations are all cases that happened before the Second World War. Since the termination of the Second World War it is safe to say that there is not a single nation that has not devalued or depreciated its currency, thus constituting a partial repudiation of its obligations to its people or to foreign creditors. The same situation exists in Canada, where the value of the Dollar now is only 50% of what it was before the war, when the Government was pleading with the Canadian people to lend its savings for the war effort. The Government is now paying back the amount it borrowed from the people, but not in the same dollar value that it took from the people, but in a dollar that is now worth only half the money lent to the government.

Mr. Graham Towers referred to the same question before

this Committee on March 18th last. At page 714, Mr. Towers stated:

> "...... in the days when kings and princes ruled the roost, they had rather a nasty habit of debasing the coinage when they got into a fix, and even later on parliamentary governments sometimes did the same thing, in the modern sense of inflation."

Later on Mr. Towers refers to the question of debasing the currency as the "insiduous thing".

Impossible to Repay Debt:

Let me ask once more: How is it possible to pay off our debts, public and private, when practically every dollar that is put into existence is put into circulation as a debt on which interest payments must be made? Again the only answer I can give is that it cannot be done, because you cannot pay back more than you get. The only remaining alternatives under the operation of the present system are first to borrow and thus go further into debt, or secondly, settle the debt by default, repudiation or bankruptcy.

Progress (?) Through Debt!

As far back as 1948, Beland Honderick, Financial Editor of the Toronto Daily Star, in the issue of May the 22nd, 1948, published an article entitled "Must Public Debt Always Be The Price of Progress". The questions raised at that time, and the warnings issued then have apparently been ignored by those responsible for the fiscal policy of the country. In referring to the debt of Canada as it stood in 1948, roughly twelve billion dollars, Honderick wrote this:

> "The burden a debt of this size imposes on the nation is indicated by the annual interest charges alone. Last year these amounted to $455,455,000 or almost 25 per cent of the government's total budget. Twenty-five cents out of every dollar paid in taxes, in other words, went to pay interest on this debt.
>
> While this is a sizeable burden today, it is not nearly so burdensome as it might be a few years from now when the present high level of prosperity has declined. For then government revenue will not be so buoyant. Income from taxes and other sources will have dropped off. And the interest burden will loom larger than ever.
>
> Down through the years there have been many conflicting theories as to the effect of the debt on the nation's economy.

In the early 'thirties', there was a tendency to blame the debt for the depression. Still later, there was a widespread belief that our debt was near the breaking point. Governments, at any rate, argued that they simply could not find the money to feed the hungry.

The pyramiding of the debt to finance the war exploded this theory and revealed the barreness of our earlier thinking. Not only that, but it gave rise to still another theory. This was that since the debt is held chiefly within Canada, it is not a burden at all. It is simply an amount of money the Canadian people owe to themselves. If the debt was equally distributed there might be something to this idea. The fact that it is fast being centralized in the hands of a relatively few makes it sound rather empty.

THINKING MUST CHANGE

Today, instead, we seem to be returning to our 1930 thinking. There are exhortations on all sides that we must double and redouble our efforts not only to stop this pyramiding of debt, but also to reduce it. So long as we pursue the free enterprise system, this seems to be the soundest course.

One cannot help but wonder, however, if our devotion to this debt system has not dulled our economic thinking. Otherwise we surely would recognize that there is something amiss with a system that requires the creation of debt as the price of progress. For that is precisely what this system does. To make any major capital improvement -- such as the construction of a factory, a school or a hospital -- we invariably must go into debt.

This is the real problem of our national debt today. More than that, it is the real challenge. For until we abandon our patronage to the debt system and develop some positive corrective, we shall be burdened as we are today."

Let me read part of that once more:

"....There is something amiss with a system that requires the creation of debt as the price of progress....To make any major capital improvement, such as the construction of a factory, a school or a hospital we invariably must go into debt....."

That is exactly the point I am now trying to establish as the greatest defect if the Canadian Banking System, namely, that it is a debt creating system, a system that results in the accumulation of debt that can never be paid.

2. - The Banking System and Deficiency of Purchasing Power.

I think sufficient has been said on this question to establish beyond doubt, that the banking system is a debt creating system. It might be well now to devote a little time to study the effect of this debt creating system on the economy of the Country. A review of the history of the past hundred years, will indicate that the present banking system was developed under and is designed to cope with an economy of scarcity, and is not designed or equipped to deal with the problems arising in an economy of abundance. It will not take much study either to ascertain that the banking system has resulted in the development of an economy that is consistently upset by cycles of booms and depressions. Let us look into this matter briefly.

From The Age of Scarcity To The Age of Abundance.:

Since the dawn of civilization the material goal of mankind has been to enjoy security in freedom, and for well over sixty centuries humanity has been groping towards that goal. It may be conceded that at various times through the ages the goal was actually achieved, but always the struggle for a better environment continued. The puny limits of man's own energy were recognized, and means to augment that energy were sought diligently.

Little progress was made in the search until less than two hundred years ago when James Watt paved the way for the machine age. All the centuries preceding this development comprised the age of scarcity as compared with the age of plenty which was soon to follow.

It might be well to note a further division in this letter age of potential plenty. The first division began with the industrial Revolution in England. With energy stored in coal, and with machines to release and utilize that energy, the output of goods multiplied and despite early misgivings, the number of wage-earning industrial workers increased proportionately.

T his first division of the age of plenty is properly called the machine age. It marked the end of feudalism and inaugurated what has since been called capitalism - or the c apitalistic system.

At the outset however, the machine age still operated in an economy of scarcity, with a tremendous shortage of manpower. The statute books of England are filled with laws for the protection of child labor in factories, the imposition of age limits and the limitation of hours of work.

Child Labor

By way of contrast and for the purpose of impressing you with the tremendous difference between the days of an e conomy of scarcity and our present era of abundance, let me give you a paragraph from Dr. McNair Wilson's book "Monarchy or Money Power". Dr. Wilson quotes Robert Dale Owen, who made a tour of Great Britain shortly after the Battle of Waterloo and wrote as follows:-

> "We visited all the chief factories in Great Britain. The f acts we c ollected seemed to be terrible almost beyond belief. Not in exceptional c ases, but as a rule, we found children of ten years old worked regularly 14 hours a day, with half an hour's interval for the midday meal, which was eaten in the facto ry. In the fine-year cotton mills they were subjected to this lahour in a temperature usually exceeding 75 degrees, and in all the cotton factories they breathed an atmosphere, more or less injurious to the lungs, because of the dust and the minute cotton fibres that pervaded it. In some cases we found that greed of gain had impelled the mill owners to s till greater extremities of inhumanity, utterly disgraceful, indeed, to a civilized nation. Their mills were run fifteen and in exceptional cases sixteen hours a day, with a single set of hands; and they did not scriple to employ children of both sexes from the age of eight. We actually found a considerable number under that age. It need not be said that such a system could not be maintained without corporal punishment. Most of the overseers openly carried stout leather thongs and we frequently saw even the youngest children s everly beaten ..... In some large factories from one-fourth to one-fifth of the children were either crippled or otherwise deformed, or permanently injured by excessive toil, sometimes by brutal abuse. The younger children s eldom held out more than three or four years without serious illness, often ending in death."

This was just a little over a 100 years ago!-

In appendix D of Hattersly's book "Wealth, Want and War" we read the story of a monument erected in the churchyard at Silkstone, near Barnsley,

> "to perpetuate the remembrance of an awful visitation of the Almighty which took place in this parish on the 4th day of July 1838.
>
> On that eventful day the Lord sent forth His Thunder, Lightening, Hail and Rain, carrying devastation before them and by a sudden irruption of Water into the Coalpits of R.C. Clarke, Esq., twenty-six human beings whose names are recorded here were suddenly summon's to appear before their Maker!"

On one side of the monument are given the names and ages of 15 males -- I cannot say men -- who were killed in the coal mines that day. The ages ranged from 8 years to 16 years of age! Five of the 15 were 8 years old, two were 9 years old, three were 10, two were 12, one was 13, one was 16 and one was only 7 years old. On the opposite side of the monument are given the names and ages of the eleven females that were killed in the accident. They were all girls ranging in age from 8 to 17 years! Children 8 and 10 years of age killed at work in a coal mine! Work in col mines today is still a very strenuous operation even with modern machinery. It is not too difficult to visualize what conditions must have been like 116 years ago.

Why was it necessary to use children to work in coal mines and factories? Because the mqchine age had not yet progressed sufficiently to reduce the amount of labour required to produce the goods of life. People were still living in an age of scarcity, and of course the whole banking structure was designed to promote the production of additional goods.

<u>Power Age</u>

The end of the machine age coincided roughly with the end of the First World War. The machine age was then replaced by the age of power.

The significance of this new age -- the power age -- now about four decades old, is not widely recognized nor well understood. Many of

us still cling to the concept of the machine age -- if not to the age of scarcity. If this were not true, our problem would be much closer to its solution. The difference between the "machine age" and the age of power is very well illustrated by C. Marshall Hattersley in his book, "Wealth, Want and War", where he states at page 22:

> "The present age is essentially a power age. To call it 'the machine age" is natural but rather misleading. Undoubtedly man is now able to command a variety of machines undreamed of 150 years ago -- but a machine or a tool can do nothing until energy is supplied to set it going. It requires power. The earlier machies were mostly extensions of the human body. Men had used hammers to drive in nails, but the power to drive the hammer was supplied by themselves. Men had used levers to raise great weights, but generally speaking the power to move the lever was human muscle. The power-driven machine is an entirely different thing. It does not magnify the effect of human effort; it displaces it.".

The plain fact is this present age of power (whether it be steam, electric or atomic) has already broken down our employment system. We are producing more and more with fewer and fewer human hands. The phenomenal increase in our power resources, together with the improvement in our methods of production, has displaced the worker. The day of the automatic factory is now a practical possibility.

Without going into too much detail in this respect let me quote from "The Road We are Travelling" written by Stuart Chase. At pages 62 and 63, we read the following:

> "Here is an inventory of energy sources in recent years. Look at the pitiful place occupied by human muscle:

From coal	17,000	trillion BTU a year
From oil	6,500	"
From water power	1,900	"
From natural gas	1,700	"
From firewood	1,600	"
From draft animals	750	"
From man power	400	"
From windmills	300	"

> The machine age of coal, iron and smoke-bound cities is being gradually replaced by the power age of electric power, light metals and decentralized factories. In the machine age, the craftsman gives way to the human robot with his soul-killing repetitive motions. In the power age, the robot gives

way to the highly educated inspector, and to the photoelectric cell. The current war will speed up power age techniques. Potential output at its conclusion promises to be stupendous."

Many more illustrations of machine power replacing manpower could be given. I do not think it is necessary. There are some who claim that new inventions are creating new work for the men displaced by machines. That is true to a point only. Stuart Chase points out in his book the "The Road We Are Travelling" that it is pretty well recognized that this was the case until the early 1930's, "but since the technological unemployment has been getting ahead".

Statistics indicate that the number of people provided with work by these new inventions and in the production of new machines that replace manpower is never as great as the number of people put out of work by the operation of labor saving devices. That is why labor union leaders always view with alarm labor saving devices -- such as the use of gas to replace coal as a fuel -- because such progress will result in more unemployment. We are producing more and more with fewer and fewer human hands.

The basic feature of the power age in which we are living is this: Full employment in the sense of every available man or woman working for wages 54, 48, 44 or even 40 hours a week to produce the consumer goods required for the country, is no longer possible or even necessary.

Operation of Banks in Age of Scarcity:

During the period of the industrial revolution, the banks generally speaking were right in their element. It was a period of growing expansion with ever increasing production from which there was an ever increasing demand. The banks then were in a position to issue all the debt money that was required to enable the people to increase production. But when other nations started to use the machinery they had acquired from Great Britain to manufacture goods, and to offer these goods on the world markets in competition with British goods, the boom era of expansion was drawing to an end.

As the machine age developed into the age of power and more goods were produced with less manpower, unemployment became a problem and as the problem indreased it became evident that the goods produced could not be distributed. It was not till many years later however, that it was discovered that the banking system which had operated so well for the production of goods was unable to finance the distribution and consumption of those same goods.

Price of debt:

In giving full credit to the banking system for the part it played during the development of the industrial revolution and the machine age, let us not forget the terrific price that has been paid to the banking system for its part in this development. The role of the banking system was to provide the means to finance production. It has fulfilled this purpose but only at the price of a terrific debt burden, both private and public, imposed on the people and their governments.

Judged by the growth of debt since the 17th century, can be very seriously questioned whether the banking system ever did function in the best interest of society.

The existence of our present debt problem is I think ample evidence that something is wrong with the banking system. Money must be borrowed before it can be created and put into circulation. This results in the growth of debt which points unerringly to the great defect in the present banking system. Nor is it of recent development. It was present from the beginning. It is a defect inherent in the system itself.

But it may be asked, if the system was so defective, how has it lasted for so long and served society as well as it has? The manner in which it has served society is of course a matter of opinion. And the reason it has lasted so long is due, not only to the power and authority of those in charge of it, but also to the mystery which has surrounded its

operations from the very outset thus preventing its weaknesses from becoming widely recognized. But today, in this age of power, when the human element in production is unnecessary to such a degree, these defects are revealed with startling clarity.

Delaying Influences

Despite the growth of debt and the depression recorded, the period in British history beginning with the Industrial Revolution was in general prosperous. Men thrown out of work by machines found employment in other factories used for the production of machines required for the production of new commodities. This capital expansion was one of the features of the age and it kept the pump well primed. Only when an increasing number of countries introduced machines and methods which had first been devised in England did hte pace slacken. As industrialization spread each new industrial centre began to compete with the other, and so the search for new markets had to go constantly further afield.

Another delaying influence tending to obscure the ineffectiveness of the banking system was the expansion of vast new areas of the world. The building of the railroads and the settlement of the Canadian west are examples. The flow of immigration in more recent years is of the same nature. All of these created new wealth.....but not one of them created new money. The creation of real wealth results from the skill and efforts of the people. But the creation of new money is the right of the banking system. And so as new frontiers were established throughout the world and giant enterprises were undertaken they were financed by the creation of new financial credit or by the reinvestment of immobilized capital. And for a time prosperity resulted.....followed inevitably by a return of hard times as conditions settled down to "normal".

The age of scarcity still lurks in the shadow of abundance simply because of the defect of the banking system we have been discussing.

Scarcity was out of place in the machine age. It is even more out of place in the present age of power. It will continue to dog our progress until we remove the flaws in the banking system. We face the urgent necessity of adapting ourselves to the present age. If we do not, the strains which result will drive society to madness and possible oblivion.

Let us examine this matter a little more closely.

In his book, "Social Adjustment," Dr. Scott Nearing observed:

> "During the last century crises occurred with a degree of regularity. Approximately every ten years there was a crisis, while about once in every twenty years there was a depression of serious magnitude. The trade cycle is now recognized by many thinkers as a part of the present industrial system. It exists, it causes much unemployment, and thus far there is no unanimity of opinion either as to the cause of the crises or the remedies for them."

"Social Adjustment" was written in 1911. If its preparation had been postponed for another forty-some years, Dr. Nearing would have had the "crisis" of 1911-14, and 1920-22 to substantiate this observation, and the great depression of 1929 to 1939 would have followed through almost exactly on schedule. Ignoring the trend towards recession in 1948-49 which was reversed by the outbreak of "police action" in Korea, we may take the present crisis as one which is only a year or two overdue, and the future of which we cannot as yet evaluate.

Credence must therefore be given to the "degree of regularity" with which business crises and their big brother depressions occur. The theory of the business cycle (which might even be considered as something of a science) is hardly original with such observers as Nearing. Nor is Professor Alvin Hansen of Harvard prepared to take issue with it. Hansen's book "Fiscal Policy and Business Cycles" contains these words --- "the movements of industry and business run in cycles sufficiently regular so that, within limits, a period may be assigned to their duration."

No Immediate Depression

At this point I wish to express my personal view that present unemployment and economic conditions comprising what is admittedly a rather alarming situation should show a substantial improvement as we go into the spring and summer season. The vast developments already going forward at Kitimat will probably have a buoyant effect at least upon our western economy. The construction of the projected Trans-Canada natural gas pipeline will have an even more general and beneficial effect. The construction of the great St. Lawrence Seaway project if undertaken will also stimulate the national economy to a considerable extent. The new National Housing Act may provide some assistance to the construction and building industries. Our oil industry will continue to expand. And in so far as Alberta is concerned, expansion of our industries associated with oil should continue.

All the great projects I have mentioned are costly and will, if proceeded with, release hugh sums of debt money into the community. Nevertheless, the initial capital outlays must be considered as removing the threat of unemployment and depression upon a temporary basis only, and when they are completed, we shall be compelled to start on something else.

It is of course hazardous for anyone to attempt to forecast economic conditions beyond the immediate future. That this is true is quite well borne out by a statement made by Sir Herbert Holt to the shareholders of the Royal Bank of Canada. Speaking on January 9, 1930.... a month or two after the disastrous crash of the stock market, Sir Herbert said: "the strength of the business structure (in Canada and the United States) is such that there is no reason to look forward to more than a moderate recession of business during 1930...Neither the prospects in foreign trade nor the situation in Canadian industry, trade and agriculture

warrant pessimism concerning the outlook during the coming year."

But even in the light of Sir Herbert's classic mistake, and despite the warning signs of surplus goods and unemployment, I dare to repeat that I think it is unlikely Canada will slip into another great depression during 1954. However, the danger signals should be heeded now to avoid disaster!

The Bank Charters will not be up for revision for another 10 years, so this is the last opportunity we have of dealing with the banking legislation of the country so as to prevent the depression that a look at history -- as well as the warning signals now in existence -- indicate is not too far away.

<u>What is a depression</u>?

It might be well to discuss for a moment what constitutes a depression and how such a condition develops. Many will point to rising unemployment, trade stagnation, an increase in the number of bankruptcies and business failures, accompanied by a rising suicide curve. All these are undoubted signs by which a depression is identified. Others will consult charts and graphs relating to bank clearings, wholesale and retail sales, gross and net production figures and so forth.... and from them pinpoint the beginning of a depression and the date upon which it ends. A depression has much to do with national income and will follow naturally when this falls below a certain minimum.

It will be evident that a close relationship exists between each one of the factors mentioned and the other. One follows the other and none remain unaffected once the mysterious depressing influences are set in motion. As one small example illustrating this relationship let us consider the following: During the past few years, our farm population has been blessed with abundant crops. With a heavy carry-over already in existence elevator space is now at a premium and markets are seemingly unavailable. Delivery quotas are imposed by the Government and because

farmers are left with an unsold product, they are short of money and so must economize. They discharge their hired help; they do not buy new implements for the farm or new appliances for the house. But farm implement and appliance companies are geared for the production of large numbers of tractors, ploughs, combines, refrigerators, vacuum cleaners and other household aids, but since these cannot be sold, stocks and inventories pile up and are stored in great quantities.

There comes a time - and it is already on us - when the management of our factories lay off workmen. The wheels of industry falter. The workmen are thrown out of work, and so they find that in order to live, they in turn must economize... because they are now dependent upon their unemployment insurance payments. Even these run out in time and workmen, who a short time ago provided a lucrative home market for the products of thousands of other producers, grow desperate. They reduce their expenditures to an absolute minimum and as a result the products of other industries pile up until more factories are closed and still other thousands are thrown out of employment. The wheels of industry grind to a halt. Ultimatelyhundreds of thousands face privation in the very shadow of vast stores of unsold surplusses. Depression has become a grim reality!

Causes of Depression:

a) Overproduction?

There are many people -- economists, statesmen and others, who claim that depressions are caused by overproduction. They point out that if so many goods were not piled up, (agricultural products as well as manufactured goods), wheels of industry could be kept turning by producing needed goods. The remedy advocated by these people is to destroy these

surplusses and start all over again.

Their cry is: "Destroy our abundance and men will return to their jobs and will again be in receipt of wages and will buy all things they need so urgently and the depression will be over!"

There were many advocates of this theory in the hungry thirties even among responsible government officials with the result that a policy of wholesale destruction was instituted to eliminate so-called "over-production". Hogs and cattle were destroyed, fields of corn and cotton ploughed under; acreage taken out of production and farmers paid not to produce. The story is too well known to require further elaboration.

(b) Unemployment?

There were others who claimed that the cause of the depression of 1930-39 was unemployment. This was a view widely held during the depression of the hungry thirties. It was indeed one of the main planks in the platform of the Conservative party during the election of 1930. R.B. Bennett, the leader of the Conservative Party is reported by the press to have said in Edmonton on June 13th, 1935: "I say again that I will call Parliament together at the earliest possible moment to provide at once the remedy -- employment for all who can and will work."

Again at Moncton on July 10th, Mr. Bennett is reported by the Canadian Press to have stated:

> "The Conservative Party is going to find work for all who are willing to work, or perish in the attempt. It is going to call Parliament at the earliest possible date after July 28 and take such steps as will end this tragic condition of unemployment and bring prosperity to the country as a whole...Mr. King promises consideration of the problem of unemployment. I promised to end, unemployment."

After having been elected to power, R.B. Bennett kept his promise to call a special Session of Parliament and on Sept. 10, 1935,

interduced the following motion in Parliament:

> "That it is expedient to provide that a sum not exceeding twenty million dollars be appropriated and paid out of the consolidated revenue fund for the relief of unemployment in constructing, extending or improving public works and undertakings, railways, highways, etc., that will assist in providing useful and suitable work for the unemployed."

The rest now is history. Mr. Bennett soon discovered that an expenditure of 20 million was not sufficient to provide work for all the unemployed and that it was cheaper to give people relief than to put them to work. Thus was started the curse of the dole and expenditures on public works with the unemployed receiving board and room plus 20¢ a day!

The mistake made by those who claimed that both over-production and unemployment were causes of the depression was in failing to realize the difference between "a cause" and a "result", or a "symptom". They failed to realize that unemployment is an indication or a sign that a depression is about to begin or is already well on its way. They failed to realize that the so-called overproduction was the result of people being unemployed and consequently not having the necessary money to buy the goods that had been produced.

<u>Financial problems in distribution</u>:

One of the inherent disadvantages in our modern system of industrial costing methods is that retail merchants must of necessity charge more for the merchandise they sell than has been distributed by means of salaries and wages and payments in the course of producing and distributing that same merchandise. I do not propose to go into the highly technical reasons why this is so. Neither do I propose to discuss the time element involved in production and distribution by which merchandise is ready for sale in advance of all the money paid out through

the processes.

There are various explanations advanced as the reason for this situation. I would like to give you two or three of these explanations and I will be content to let you select the one you wish.

I am sure you will be disappointed if I do not refer first of all to the explanation given by the late Major C. H. Douglas. I think possibly the best explanation given by Major Douglas is the one to be found in his book "Credit Power and Democracy", 2nd edition, pp.21 and 22, in the following words:

> "A factory or other productive organization has, besides its economic function as a producer of goods a purely financial aspect. It may be regarded on the one hand as a device for the distribution of purchasing-power to individuals through the media of wages, salaries and dividends, and on the other hand as a manufactory of prices -- financial values. From this standpoint its payments may be divided into two groups:
>
> Group A. All payments made to individuals (Wages, Salaries and dividends).
>
> Group B. All payments made to other organizations. (Raw materials, bank charges and other external costs).
>
> Now the rate of flow of purchasing-power to individuals is represented by A. but since all payments go into prices, the rate of flow of prices cannot be less than A & B. The produce of any factory may be considered as something which the public ought to be able to buy, although in many cases it is an intermediate product and of no use to individuals but only to a subsequent manufacturer; but since A will not purchase A & B, a proportion of the product at least equivalent to B must be distributed by a form of purchasing-power not comprised in the descriptions grouped under A."

C. H. Hattersley, at page 65 of his book "War, Want and Plenty" offers another explanation for this discrepancy:

> "It is the writer's considered opinion that an existing deficiency of purchasing-power can be sufficiently and satisfactorily explained as the result of the diversion of consumers' money from expenditure on consumers' goods to investment, either direct or indirect."

H. C. Batten in "Economic Democracy", the issue of October and December, 1952, presents the problem in this manner:

Killing Jobs.

"On the first page of 'Ford Facts' is a picture of a plastic die being lowered into place at the Chrysler Corporation. A notation on the side states that 'a plastic die can be made in three weeks, a steel die takes sixteen weeks' and on the other side a notation "forty-two men worked on the O.D. grinding operation', but by technological adjustment 39 of the 42 jobs were eliminated. Below the picture in large letters is JOB KILLERS ..... The end purpose of all production is consumption whether a slice of bread or a skyscraper. But production will not be consumed without purchasing power. While it is commendable for unions to demand higher wages the only logical goal is such collective amount as will purchase all production at retail sales price, thus enabling production to go steadily forward. But the difficulty is that industry is unable to pay out such wage because, among other conditions, THE FLOW OF PRICES IS ALWAYS GREATER than the flow of purchasing power, therefore the purchasing power which can be paid out in the process of production and distribution is less than the retail sales price. Goods are left unpurchased and after that - - depression .... By having a proper amount of money handled in the interests of the people, the United States could produce and consume at least three times the goods and services as at present. Other nations could soon be producing much more under such favorable conditions. In this way the entire world could prosper rather than live in the dark ages of economic superstition and slavery .... In what is supposed to be the richest nation on earth, why is it necessare to collect old clothes for poor children so they can attend school? The reason is not difficult to find. Ford lays off 39 to 42 workers due to technology ... Free enterprise is not self-supporting."

Finally, may I refer you to "The Chart of Plenty", by Harold Director of National Survey of Potential Product - - a committee of 60 technicians who spent a year surveying conditions in the U.S. Loeb's final conclusion is succinctly stated on page 164:

"The answer to the dilemma is obvious. <u>Production (in the U.S.) is curtailed because buying power is lacking</u>.

Production is dependent on many factors in the physical world. Buying power is a human institution subject to control. Nevertheless, production is cut to fit an inadequate buying power, instead of buying power (which can be raised or lowered at will) being raised to fit product capacity.

This procedure can only be linened to that of the ancient Greek innkeeper, Procustes, who cut off the legs of his guests when they were too long for his beds.

> The research of the N.S.P.P.C. indicates that the resources, man-power, equipment and technology existing in the nation are ample to provide a high standard of living for every inhabitant of the continental United States."

<u>Fundamental cause of Depression</u>:-

Let me repeat Loeb's crucial words again:

"Production is curtailed because buying power is lacking".

That is the long and short of the whole question. The fundamental cause of depression can well be said to be <u>lack of purchasing power or deficiency of purchasing power in the hands of the consumer</u>.

There is no question about the fact that we actually can and do produce more than we seem able to market. I am not prepared to accept the cry of over-production as the reason. It is safe to say that we have never at any time produced more than was needed in one market or another. While one section of the world is embarrassed by so-called surplusses, a much greater section always is desperately in need of these so-called surplusses. But those in need, whether they be living within Canada or in other less favored sections of the world, cannot satisfy their need because they simply haven't the money to pay the prices asked.

"Under-consumption" is a more acceptable and accurate conclusion than "over-production" ever will be.

<u>All factors are of a financial nature</u>:

It should be apparent that <u>all the factors comprising what we call a depression are basically of a financial nature</u>. Farmers are unable to market their abundant crops, not because nobody wants or needs them, but because not enough people have sufficient money to buy the abundance produced. Again farmers cannot buy machinery they may require because they haven't sufficient money to pay for it. Men are thrown out of employment because their services are not required in the factories for the production of goods than cannot be sold. Wholesale and retail sales drop because the unemployed have been deprived of the money

with which they formerly purchased the needs of themselves and their families. All these factors are financial.

The over-production of wheat or any other product does not bring on a depression. The lack of money is responsible. Money alone is the key to its solution.

Let us break in at the beginning of what is known as a business cycle. A crisis is approaching its sorry end. Government relief, business failures, a firm adjustment of debts, destruction and restriction of production, have all contributed to the reduction of inventories to a minimum.

There now is need for more products, and so the factory owner goes to his banker and convinces him that if he is allowed a substantial line of financial credit, he will be able to pay his obligation in due course. He goes into production, hiring men whose pay envelopes now provide funds spent for food, clothing, rent, etc. This starts a chain reaction and soon other factories are negotiating other loans to finance still greater production. Unemployment is just a memory. The deflationary period is over.

Good times continue until the flaw in our financial system once more manifests itself and the inevitable surplusses begin to appear. Sales decline. Bankers become nervous in regard to their loans, and are not only reluctant to make further loans but are anxious to protect their positions by calling in advances already made. Purchasing power is decreased. Another depression has started! The cycle is running true to form.

How Depressions are Ended.

Some of us will be familiar with conditions which prevailed in Canada from the bursting of the boom about 1912 to the outbreak of World

War I. Without resorting to statistics, we can perhaps recall that times were bad. Conditions which prevailed in 1914 were repeated during the depression of the 1930's, on a greater scale. Fortunes disappeared as by magic. Soup kitchens were the order of the day. Unemployed begged on the street corners or canvassed for handouts at the kitchen doors of the nation. Hundreds of thousands were on relief. Destitution and desperation was imprinted on the faces of untold thousands.

Here are two depressions within the memory of many people living today. How did they end? They were ended in each case by the outbreak of war. Overnight, men found employment either in the army or in war industry. Overnight, factories were opened and began to fill their orders for war. In both cases, the depression was ended.... by war. And as a result of financial measures immediately undertaken there was plenty of money to be had.... almost overnight.

Yes, as soon as war broke out in 1914 and again in 1939, the chronic deficiency in purchasing power was immediately remedied. Some of the unemployed who had no purchasing power were taken into the army and immediately were in receipt of income. Others were put to work in war industries. Almost immediately everybody started receiving good wages -- purchasing power that they did not have before -- paid largely with borrowed money, the money that was claimed could not be found or borrowed before the war to finance the consumption of the nation's production. I do not mean to infer that all the people in the armed services and working in war industries came from the ranks of unemployed, not at all. The point I wish to make is that soon after the outbreak of war, there were no longer any unemployed in Canada, except the physically disabled or mental cases, and the purchasing power put into the pockets of people employed as the result of war resulted in the disappearance of the so-called surplus goods that existed before war broke out.

Why does it take a war with all its sufferings and heartaches

to end a depression? Twice has this happened now in the memory of living man. Are we going to continue to allow depressions to creep up on us and then await the curse of another war to provide the necessary funds to enable us to consume what we are able to produce?

Must we accept the situation outlined by Sir Winston Churchill in his book "The World Crisis". In speaking of the Armistice Day of November 11th, 1918, Sir Winston Churchill writes:

> "A requisition for half a million houses would not have seemed more difficult to comply with than those we were already in process of executing for 100,000 aeroplanes, or 20,000 guns or two million tons of projectiles. But a new set of conditions began to rule from 11 o'clock onward. The money cost, which had never been considered by us to be a factor capable of limiting the supply of the Armies, asserted a claim of priority from the moment the fighting stopped."

Sir Winston Churchill refers to the financial factor in war and peace. H. G. Wells, in his book, "The Shape of Things to Come", published in 1933, deals with the effect of war on production:

> "The war (1914-1918) from the economic point of view had been the convulsive using up of an excess of production that the race had no other method of distributing and consuming ....The postwar increase in war production, which went on in spite of endless palavering about disarmament, did not destroy men, nor scrap and destroy material, in sufficient quantity to relieve the situation ... The more efficient the output, the fewer the wage-earners. The more stuff there was, the fewer consumers there were...This was the paradox of overproduction which so troubled the writers and journalists of the third decade of the twentieth century."

It has been pointed out that the U.S. economy after the Second World War was saved from collapse, first, by the cold war with Russia, and secondly by the Korean "police" action. Both resulted in large numbers being taken into or maintained in the armed services, as well as millions employed once more in war industries, producing and stockpiling goods for the war effort. The effect that peace has on business can well be understood by recalling that when the rumours came out about peace in Korea the stock market took an immediate drop. In this respect it might

be interesting to note a new item that appeared in the London Times, on July 16th, 1953, which reads as follows:

> "Only War and Destruction Now Bring Prosperity:
>
> Mr. J.S. Gale, president of the National Council of Wool Selling Brokers, has announced that the record quantity of wool sold in 1952-53 - namely 3,888,753 bales -- earned Australia £404,756,387....'Everyone hopes the buoyant conditions will continue throughout 1953-54', Mr. Gale said, 'but there are some factors which induce caution when looking to the future. A peace in Korea, which we all hope is quickly reached, must have a depressing effect on all primary commodity prices.'" (The Times, 16 July, 1953)

Why A Depression Now?

The present crisis, if I may call it that, raises the question of why? Why all this concern about unemployment? Why this fear of peace? Why should the present situation degenerate into a full-scale depression?

Consider the physical aspects of Canada for a moment. Our capacity to produce has reached levels unprecedented in our history. Our labor force has never been more able, more numerous, more skillful or more willing to work. Our natural resources are the envy of the world, with new discoveries and new developments being added daily to our wealth. We are concerned with the overwhelming volume of unsold grain, butter, cheese, dairy and other farm products; with the great and growing stores, of our unsold lumber; with the fish we can catch but cannot sell, the fruit we can produce but which is allowed to go to waste.

We note with alarm the warning signals of another depression. Some people laugh when this warning is given. They also laughed in 1930 and claimed that the people talking about the seriousness of the unemployment problem and lack of markets for our Canadian products did not know what they were talking about. Who will forget the statement of Sir Herbert Holt, the great financial wizard of those days? I have already referred to it, let me repeat it:

"...... the strength of the business structure in Canada and the United States) is such that there is no reason to look forward to more than a moderate recession of business during 1930. ... Neither the prospects in foreign trade nor the situation in Canadian industry,trade and agriculture warrant pessimism concerning the outlook during the coming year."

The "moderate recession" referred to by Sir Herbert Holt lasted 10 years - and it took a war to end it ! Let those who are inclined to scoff remember Sir Herbert Holt. There can be no doubt that we are heading straight for another depression, unless we head the warning signals that are there for everyone to see if they will, and unless the necessary steps are taken immediately to prevent it.

What are these warning signals?

These have appeared continuously in the pages of the press throughout the past year. Our attention has been called to all kinds of surpluses - surpluses of sugar, surpluses of cotton, surpluses of wine in France, surpluses of tomatoes, surpluses of tea, surpluses of tin, surpluses of agricultural products of all kinds.

The Daily Express of September the 29th,1952, contained owing statement:

Surplus of Wheat

"Wheat is overflowing in Canada's granaries. It is piling up in empty farmhouses, skating rinks and village halls and even in improvised cribs of tar paper in the open fields. There is anough to fill the goods trucks of a train 12,000 miles long; piled 50 feet deep, it would cover the road from London to Tunbridge Wells. It would last everyone in Britain three years if every man,woman and child ate a pound of bread a day". (Daily Express, 29 Sept. 1952.)

This statement was in September 1952, and since then two bumper crops have been added to the world supply of wheat. The situation has become so serious, that the farmers are unable to obtain payment for their year's labour because they are unable to sell their wheat.

Nor is Canada the only country facing a problem in the

disposal of its agricultural products. The situation is worse still in the United States. It is estimated that the value of surplus farm products in the States is about $6,500,000.000. More than 270,000,000 lbs of butter is on hand, and this amount is increasing at the rate of 1 million lbs daily. The supply of cheese exceeds 282,000,000 lbs and is increasing at the rate of 1,500,000 lbs daily. In 1953 U.S. fluid milk production jumped from 116,000,000 lbs to 121,000,000 lbs. The amount of dried milk in storage now exceeds 470,000,000 lbs. Additional millions of lbs of food lie in storage -- honey, lima beans, olive oil etc. Time Magazine for March 15, 1954 points out that:

> "Getting rid of farm surpluses, even in the form of gifts, is a tough job, despite the fact that many of the world's people are on the brink of starvation. At home and abroad, farmers and merchants are quick to protest cut-rate sales or giveaway programs that push down local prices. Accordingly, the surpluses have to be distributed outside normal trade channels."

The astounding fact that the butter situation in the United States is that despite these huge government surpluses the government found that it was cheaper to feed its armed forces with margarine than to supply them with butter!

But there is another warning signal; it is the growing unemployment situation in both Canada and the United States. It is estimated that unemployment in Canada is over the half million mark, up considerably since the same time last year, while in the U.S., the figure is estimated to be well over 3 million.

Stuart Chase ("For This We Fought, P.41") estimates that in 1940 there were 45 million Americans at work. By 1945, the number of employed Americans had increased to 65 millions. This includes those employed in the armed services as well as in defence projects. As a result of full employment, Chase points out that "the volume of manufacturing trebled, and the output of raw materials rose 60 per cent".

Let us not forget however that this production consisted mainly of war materials "76,000 ships, 315,000 pieces of field artillery, 165,000 naval guns, 86,000 tanks, 2,400,000 war trucks and half trucks", and countless other items required only for war purposes.

Let us not forget either that during the cold war and the Korean conflict the production of consumer goods has risen to the point where we have now surpluses of all kinds in spite of the fact that millions of Americans were deriving their income from the armed services or the production of war supplies. These people are not needed to maintain full production of consumer goods. What will become of them?

It is a well known fact that economic conditions in the U.S. have a definite reaction in Canada. Significant warning signals are also to be found here.

The annual Report of the Bank of Canada for the year 1953 indicates that:

1. Inventories increased in 1953 over 1952, particularly farm inventories and stocks of grain in commercial channels.

2. Expenditures on goods and services by all levels of government were 2 per cent larger in physical volume in 1953 than in 1952. This represents a distinct levelling off following the increase of 25 per cent which took place from 1951 to 1952 when defence expenditures were growing rapidly.

3. At page 3 we read:

> "In the latter part of 1953 employment did not keep pace with the annual increase in the labour force and in December the number of persons without jobs and seeking work was estimated at 190,000 as compared with 132,000 in December 1952."

4. At page 15 we find that our foreign trade position has been completely reversed from 1952. In 1952 we had a favorable balance of

trade of 325 millions, whereas in 1953, we imported 214 millions dollars worth of goods in excess of our exports. Could there be any relationship between our increased inventories and our decreased exports?

The situation has deteriorated even more since the end of the year. It is folly to close our eyes to these danger signs, particularly to our increased supply of goods and increasing unemployment. What will happen if our productive machinery is operated at full capacity again this year - - or will it so operate now that the shooting war in Korea is over?

Conclusion:

Must we have a depression simply because our productive capacity is so great? Must the business cycle of boom and depression be accepted as the working of some immutable, divinely inspired law? Is war the only answer to the problem?

Stuart Chase, in his book "Where's The Money Coming From", states at page 7:

> "One can begin to discover a rough cycle in the performance of the modern economy, where mass production outruns mass consumption. Machines grind and produce a mountain of goods. The goods pile up and presently choke the machines. The machines go on half time or stop altogether. The plethora of goods must be dynamited out of the way so that the machines can start again, and their human tenders can work again. Only total war has so far provided the requisite amount of dynamite".

Why must it be war? Is there no alternative to war to solve the problem?

Business cycles are due to man-made causes and can be controlled by man. They are the inevitable result of present banking practice and the limitations of our financial system. They are the result of financial policy determined by those charged with the administration of our financial system. That they occur with measurable regularity is due to two main factors:

First, the physical inability of the present financial system to distribute purchasing power by means of wages and salaries in sufficient amount to buy our total production. Secondly, the inability of the banking system to go beyond what is considered to be sound limit of credit expansion, and put into circulation, interest free the amount of purchasing power required for the full distribution of all the goods and services we are able to produce.

There can be no doubt that deficiency in purchasing power is the chief cause of our economic difficulties today. The remedy cannot be implemented under existing Canadian banking legislation , because it makes provision that all new money issued by the chartered banks shall be put into circulation as a debt. We feel the proposals we have to offer to remedy this problem are sound and if implemented will make physically possible the highest standard of living for all Canadians that our vast resources of material wealth and manpower will permit.

What are these proposals?

PART III

P R O P O S A L S

PROPOSAL NO.I

1. Section 23 of The Bank of Canada Act, should be amended to eliminate the provision requiring the Bank of Canada to maintain a gold reserve of 25% against its outstanding notes and deposit liabilities; and Section 25(1) of the Currency, Mint and Exchange Fund Act should be amended to eliminate therefrom the authority of the Governor-in-Council to require the Bank of Canada to hold a 25% reserve in gold or foreign exchange in relation to its liabilities.

Some people hold the view that in order to be sound, the money of a country must be based on gold, that recognition of the gold standard is essential. Yet, whenever a country has faced a financial crisis, one of the first things it has had to do in order to meet the financial crisis, was to abandon the gold standard. Canada was on the gold standard before the First World War. But as soon as Canada entered the war in 1914, there was a run on the banks in Montreal and Toronto and in order to avoid financial panic, the Canadian Government was called upon for help. What happened?

At the time war broke out in 1914, the Minister of Finance under the Dominion Notes Act was required to hold a reserve of 25% in gold or debentures guaranteed by the government for the first $30,000,000 of Dominion notes issued. All Dominion notes issued over $30,000,000 required a 100 per gold reserve (MacMillan Report on Ca adian Banking, PP.21-22).

When war broke out, the 30 million dollar limit on the issue of Dominion Notes was raised to 50 million, under the Finance Act enacted in August 1914. Before the war ended, a total issue of 126 million dollars of Dominion notes had been issued, far in excess of the 25% gold reserve requirement.

To assist the chartered banks to meet the financial crisis at the outbreak of war, the Dominion government made advances to the chartered banks of large sums of Dominion notes, suspended the redemption of bank notes in gold, and made the Dominion notes legal tender for the redemption of chartered bank notes, authority for which had been provided for in the Finance Act. In other words, Canada abandoned the gold standard. As soon as the gold standard was suspended and the Canadian government took these emergency steps, the financial affairs of the country became stabilized.

Canada remained off the gold standard until 1926, when it once more joined other nations in returning to the gold standard. It was not for long however, because as soon as the depression hit the country and the rest of the world in the early thirties, the financial system started feeling the squeeze once more. England went off the gold standard in 1931, followed in 1933 by the United States and in 1936 by France, Holland and Switzerland. This was three years before the Second World War.

The Bank of Canada Act of 1934, provided for the issue of Bank of Canada notes, backed by a 25% reserve of gold. This gold restriction was removed however, in 1940, in order to enable the Bank of Canada to expand its note issue, far beyond the issue made possible by the 25% gold reserve restriction. The suspension of the 25% gold reserve under the Bank of Canada Act, was continued from year to year by Order-in-Council, until in the year 1952 the Currency, Mint and Exchange Fund Act was amended to eliminate the necessity of these annual orders-in-Council. Section 25 of the Currency Mint and Exchange Fund Act, enacted in 1952 reads as follows:

> "25.(1) Notwithstanding section 23 of the Bank of Canada Act, the Bank of Canada is not, unless the Governor in Council otherwise prescribes, required to maintain a minimum or fixed reserve ratio of gold or foreign exchange to its liabilities.
>
> (2) The form of Schedule B to the Bank of Canada Act is, until such time as the Governor-in-Council otherwise prescribes, amended by deleting the statement of the ratio of the net reserve to notes and deposit liabilities."

The restriction imposed by a gold reserve on the issue of Bank of Canada notes has a very decided bearing on the cash reserves of the chartered banks and their deposit liabilities. Should the Canadian government decide tomorrow that the Bank of Canada should operate once more on a gold reserve basis, the Bank of Canada would have to call in a vast amount of its notes in circulation, or take action to reduce the chartered bank deposits with the Bank of Canada. This action would reduce the cash reserves of the chartered banks under the Bank Act and consequently the chartered banks would have to reduce their deposit liabilities tremendously by calling in their loans;

It is inconceivable that the Canadian government would make such a request without proper notice. We realize however, that the power is there to be used whenever in the thinking of Canadian government officials it should be used. And that is what disturbs us. The only possible explanation that can be given for the retention of this power on the statute books is that some day in the future the Canadian government feels that it might be desirable to return to the gold standard. What concerns us still more is that this power can be exercised by the Canadian government at any time without consulting Parliament. If this decision is ever to be made, we feel that it should be exercised only by Parliament because that decision will affect the standard of living of every Canadian citizen.

Why is it that we cannot learn from the lesson of history? The gold standard has been discredited in just about every country in the world. All the leading countries of Europe, even the United States of America, have had to suspend the operation of the gold standard. Why even consider it again? Certainly it is not necessary for purposes of our internal economy. Instead of helping our internal money system, the gold standard can only hamper it by the imposition of artificial restrictions that have in the past resulted in tremendous losses.

One of the main arguments advanced during the early depression days in the United States, to prevent the adoption of any relief program to cope with unemployment, was that the adoption of any such program would drive the country off the gold standard. This is an illustration of the extent to which some people will go in their attempt to protect the sanctity of gold rather than the sanctity of the individual. "The gold standard is saved at the cost of unemployment", Stuart Chase in his book "Tomorrow's Trade".

It soon became eivdent to the Government Leaders in the States that this contention was correct and that they would have to chose between unemployment and the gold standard. Faced with this dilemna the gold standard was thrown overboard. The same choice faced Canada and every leading country in Europe.

Why then even consider as a possibility a return to a system that history has proved time and again leads only to unemployment and depressions.

Some advocate the necessity of the gold standard for purposes of foreign trade. Is this sound? There is of course some merit in having a recognized standard of value in foreign trade transactions, and for this purpose gold may well be used, providing it is on the same basis as a foot or a metre are recognized as standards of lengths; an imperial gallon, as a recognized standard of volume or a ton as a recognized standard of weight. But a standard of weight or a standard of length or a standard of value is an entirely different thing to exchanging goods for units of length, weight, volume.

There are only two ways in which foreign countries can pay for imports or for the goods they buy. The first is payment in goods, or the exchange of commodities between countries. The second is payment in

money. In foreign transactions, the two kinds of money are gold and legal tender money recognized for use in the country. Legal tender money is now mostly paper money. For instance, in Canada it consists of Bank of Canada notes; in Great Britain, Bank of England notes, etc.

There are only four ways in which a country can obtain the necessary money to pay for the goods it buys.

1.- By exporting goods itself which will give it a claim for legal tender money or gold on the country to which it exports its goods. The money thus obtained can be used for payment of imports from the same country. This in effect is barter with money used by both countries as the means for settlement.

2.- Through invisible services, such as expenditures of money by tourists. If Canadians spend less money outside of Canada than American tourists spend in Canada, we benefit by a net increase in American dollars.

3.- As a loan either from the country supplying the goods or from some other country. The proceeds of the loan can be used to pay for imports. The loan of course becomes a debt usually payable to the exporting country.

4.- By receiving an outright gift from the country supplying the goods. This outright gift usually is not made in money but in goods. During the world war of 1914-1918, an outright gift of money was made to Great Britain by Canada to help her finance her war effort. We had the same situation again during the second world war, when Four billion dollars of money was given as an outright gift to Great Britain for the purpose of assisting her to finance the war effort. Most of this sum was used in buying Canadian goods.

Over and above these gifts of money however, both Canada and the United States have made tremendous gifts of goods to nations who were in

need and yet did not have the money needed to pay for these goods.

It is becoming increasingly evident that international trade must be conducted on the basis of barter. Most of the gold in the world today is stored underground in Fort Knox. The problems of foreign trade have been increased by the fact that the countries to which we or the United States are exporting goods today have no gold with which to pay for the goods they import. Furthermore, we complicate the situation by refusing to accept their currency in payment for the goods we export. Frequently we even refuse to take their goods in exchange for our own goods. This refusal to take goods in payment for goods is made effective by the imposition of tariffs by all the nations of the world.

It has been stated that Canada must export in order to survive. Ours is primarily an agricultural economy. We produce such large surpluses of agricultural products particularly, that unless we can find the markets for our agricultural products our whole economy is disrupted.

If the farmers are unable to sell their wheat, then they are deprived of the necessary income to purchase farm machinery and the abundance of consumer goods we are able to produce in Canada or are able to acquire from outside of Canada in exchange for our wheat.

If however, the countries that require our wheat have not the necessary gold or Canadian currency accumulated through tourist trad or other means to pay for our wheat, then the only way in which they can get our wheat is by an exchange of some of their own goods. If on the other hand we impose tariffs against the goods these other countries seek to export to us, (Belgian glass, English woollens, and so on), in exchange for our wheat, how then can these countries buy our wheat or take our wheat in exchange for their goods? That is the vital problem that is facing Canadian foreign trade. This problem cannot be resolved by going back to

the gold standard, or insisting on payment for our goods in gold, because these countries have not the gold with which to pay for our Canadian goods.

One remedy would be to lower our tariffs and to take in Belgian glass and British woollens and German automobiles in exchange for Canadian wehat, and thus enable these foreign goods to compete with our own Canadian made goods on the Canadian market. This of course would result in further unemployment in Canada, because the imports of these foreign goods would displace the production and sale of our own Canadian made goods thus throwing our own Canadians out of work.

There is a remedy however, and it is this. The Bank of Canada should be used to provide less fortunate foreign countries with the necessary dollars to buy our Canadian wheat with the understanding that we would have a claim on any surplus goods produced by these foreign countries, or their creditors, if we desire.

If we are not prepared to accept from these foreign countries their surplus goods in exchange for our own surplus wheat and other goods ither because we do not need the goods or do not want their goods, then the loan made to these countries by the Bank of Canada to buy our Canadian Wheat and other surplus agricultural products would be cancelled.

It is far better to export replaceable assets such as wheat, than the irreplaceable assets such as iron ore and so on, as we did for destructive purposes during the war. We are far better touse our agricultural products for the purpose of keeping the standard of living of our own Canadian people on a high level and at the same time, increase the standard ofliving less fortunate people in foreign countries, than to drag down the standard of living of our own people to the level of nations less fortunate than ourselves. If we do not export our surplus goods, we will find our Canadian economy back to the point where it was in the hungry thirties.

It is for these reasons that we recommend that the Currency, Mint and Exchange Fund Act and the Bank of Canada Act should both be amended, in order to eliminate any possibility of a return to a gold reserve as backing for the issue of Bank of Canada notes.

It might be pointed out in passing that this provision would conflict with the Bank of Canada Act, the object of which, according to the preamble of the Bank of Canada Act, is

> "to regulate credit and currency in the best interests of the economic life of the nation...."

How can we have effective regulation of credit and currency if the provision of the Act limit the amount of currency and credit to such an extent as to cripple the economy of the country. It has happened before and it can happen again.

Finally, I would like to point out that this proposal is the basis of the implementation of our second and third proposals, the effect of which will be the establishment of an effective policy "to regulate credit and currency in the best interests of the economic life of the country. This cannot be done if our monetary system is to be hampered by artificial restrictions that cannot work and that have always had to be suspended in times of crisis.

This leads me to a consideration of our second proposal.

PROPOSAL NO. 2

(1) Section 59 of the Bank Act should be amended to provide that the chartered banks should be required to maintain 100% cash reserves for any deposit liabilities they incur in excess of their deposit liabilities as at the date this amendment comes into force.

(2) The Bank of Canada Act should be amended to authorize the Bank of Canada to advance to the chartered banks such cash reserves as are necessary to enable the chartered banks to comply with this requirement and at the same time expand loans to whatever extent is necessary to ensure the progressive development of the national economy.

These proposals recognize fully the importance of the Canadian Banking System to the Canadian Economy. There is no doubt that the Canadian Banking System is an excellent and efficient system. It is essential to the Canadian economy in order to provide the necessary funds for investment in capital assets, the production of consumer goods and the payment of services in connection therewith. In other words we firmly believe the banking system should continue to operate in the field of merchant banking. It is because the banking system is doing an efficient job <u>within its field of activity that we</u> are opposed to the socialization or the nationalization of the chartered banks. We question very much whether there could be any improvement in the operation of the chartered banks, by making them adjuncts of the Bank of Canada or by making them a department of the Canadian Government.

We pointed out that within its field of activity the Canadian Banking System is doing an excellent job. There is a field, however, in which

it cannot efficiently operate. We have already discussed this question at length, and do not want to repeat here all that we have said previously. We think it is well to state again that when the economy of the country is facing a depression as indicated by surplus goods that remain undistributed and the mounting number of unemployed, it cannot be expected that the Canadian Banking System should continue making loans for the production of goods which will only add to the surplus already existing. It is folly to expect the Canadian Banking System to make loans (and this is the only way the Canadian Banking System puts money into circulation) to enable the people to buy and consume goods the production of which has already been financed through loans made by the banking system. The Canadian Banking System, after all, is a profit making institution operating for the benefit of its shareholders, and not for charitable purposes. This being true, chartered banks cannot be expected to issue money without interest because the money so issued would return no profit to the banking system and no dividends to the shareholders.

<u>Supply of Money essential.</u>

Issuing money without interest can only be done through government action, and the government should accept this responsibility. Why? Because money constitutes the very economic lifeblood of the nation. Without money we would have to resort to the old system of bartering wheat for furniture and cabbages for clothing. There must be sufficient money in circulation to enable the country to operate its business economy efficiently. We have already seen that the only way in which that money can be put into circulation by the chartered banks is as a debt which must be repaid along with interest. We have also seen that such a procedure can only result in the ever-increasing accumulation of unpayable debt.

A constant and adequate supply of money is essential to the economy of the nation. How then can any additional money required be put into circulation interest free without being used by the chartered banks as the basis for further expansion of credit resulting in a serious inflationary condition with all its attendant evils?

Let us take a look at some figures for the purpose of illustration.

The Bank of Canada Report for the year 1953 gives us the following information as at December 31, 1953.

Chartered bank cash reserves..... $888,000,000

Deposit liabilities (Government
and general public).............8,534,000,000

If the government were to put into circulation $500,000,000 of new money created at cost by the Bank of Canada, this $500,000,000, under the present banking legislation, would very soon constitute cash reserves and could be used by the chartered banks to expand credit up to 5 billion dollars. This could possibly create quite an inflationary condition.

It is to avoid this situation developing that we suggest that banking legislation should be amended, in order to maintain the present status of the banks whereby the banks insofar as the existing cash reserve requirements are concerned could expand credit on a 10 to 1 ratio. Insofar as any additional cash reserves, however, put into circulation by the government, these could not be used for the expansion of credit.

Does this mean the development of the country would become static?

No, First the additional monies put into circulation by the government could be used by the ultimate recipients to expand their business activities without having to borrow all the money required from the banks.

Secondly, as and when additional funds were required for the further general economy of the country in financing production, these could be obtained by the chartered banks from the Bank of Canada, in the form of credit advances, on such terms as to make it possible for the banks to continue to pay interest on term savings.

If the amendments recommended were not enacted, the Chartered Banks could thwart any attempt by the Bank of Canada and the Canadian government to put into circulation a limited amount of money at cost to finance the distribution and consumption of our surplus production. Action could be taken by the Chartered banks to this end, not only by using the money so issued at cost as cash reserves for the purpose of expanding credit but also by the sale of Canadian government securities from their portfolio, or hypothecating their securities with the Bank of Canada.

We have already seen that cash reserves consist of Bank of Canada notes held by the chartered banks and chartered bank deposits with the Bank of Canada, and these deposits constitute a claim on the Bank of Canada for Bank of Canada notes.

We have also seen that chartered banks may increase their cash reserves by selling or hypothecating their securities, i.e., Government of Canada Bonds to the Bank of Canada. In either case it obtains the necessary cash reserves to serve as the basis for the expansion of credit. The practice of a central bank making loans to banking institutions, although not usually followed by the Bank of Canada, is common practice by the Federal Reserve Board in the U.S.

The return of the Chartered Banks of Canada for the year 1953 published in the Canada Gazette of February 6th, 1954, reveals that the total amount of Canadian government long and short term securities held by the chartered banks amounted to $2,760,166,000.00.

Were the chartered banks to sell or pledge to the Bank of Canada only $500,000,000 of these securities, they could obtain the necessary cash reserves to expand credit by 5 billion dollars.

Thus it will be seen that it is essential to prevent the banks from expanding credit beyond the present ratio to their cash reserves if any program for the issue of money at cost is to be effective.

There are alternatives however, to accomplish the same objective. One would be to simply increase the ratio of cash reserves thereby preventing the banks from increasing loans beyond their present figures. This procedure however, could also be used to require the banks to reduce their loans. Even if the reduction in purchasing power due to a drastic reduction in loans were to be met by an equivalent supply of money issued at cost, put into circulation by the Canadian government, still any substantial reduction in loans could well affect the productive effort of the country, again resulting in an inflationary situation.

To avoid the development of this situation is the first reason why we recommend that the banks should continue to maintain their deposit liability on a 10% cash reserve ratio as at the date the amendment comes into force.

The second reason is because of the effect on the profit and loss operations of the chartered banks.

There may be come undue concern over the loss of profits that the chartered banks might suffer as the result of this proposal. It will be pointed out that the implementation of this proposal will have the result of requiring the banks to service a large amount of deposits without any revenue therefrom.

Let us not forget that originally people deposited their money with the banks for safekeeping, and paid the banks for the services rendered. It was only when the banks discovered that they could use the peoples' deposits to their advantage that instead of charging the people for keeping their money safely and providing the check system for the payment of accounts, the banks started inducing people to deposit their money with the banks by paying them to do so. We see no reason why the banks while continuing to pay interest on savings deposits should not continue the practise of charging a small fee for servicing current accounts if necessary.

But would this really be necessary? Should we be really concerned about a reduction in the profits of the chartered banks?

-in proposal No.2. Let us go back for a moment to 1867. In the Year Book of Canada of that year, we find the following statement:

> "With little exception the Banks pay very large dividends of from 6 to 8 per cent".

What would the author of this statement of 1867 write about the bank profits today? Before reviewing the actual profits made by the chartered banks during the last few years let us look at their main source of revenue, namely, interest on loans.

Here is how interest accumulates. When I deposit a thousand dollars in the bank in cahs, under existing provisions of the Bank Act, the Bank is in a position to make loans amounting to $20,000.00 on the strength of my deposit. In practice however, the bank only expands credit in the ratio of ten to one. Consequently, on the strength of my deposit of one thousand dollars in cash, the bank can and does lend ten thousand dollars. The bank rate of interest today is 6%, but to use a somewhat arbitrary figure, let us say 5% is the average rate of interest. The return to the bank is not 5% on the $1,000.00 I have deposited, or $50.00, but rather 5% on the $10,000.00 issued in loans by the bank, or a total return of $500.00. This $500.00 represents a rate of retunr of 50% to the bank on the strength of my deposit of $1,000.00. There are many people who feel that the interest rate of 24% that the Canadian government permits the Small Loans Companies to charge is excessive. Yet this is only half the rate of returns earned by the chartered banks on the bank credit they create and issue in the form of loans up to 10 times their cash reserves.

Let us take another illustration. A bank has $1000.00 Canadian Government Bond. It could sell the bond on the market or to the Bank of Canada, or it could borrow $1,000.00 from the Bank of Canada and deposit the Canadian Government bond as security for the loan. The chartered

bank would thus increase its cash reserves by $1,000.00. In the event of a loan obtained from the Bank of Canada, the chartered bank might have to pay a nominal raté of interest to the Bank of Canada. This cash reserve immediately enables the bank to expand credit by way of loans to its customers to the extent of $10,000.00. Here again the return to the bank is $500.00 on the basis of 5% interest on the $10,000.00 advanced. This $500.00 represents a rate of return of 50% to the bank on the $1000.00 cash reserves obtained by selling the government bond or hypothecating it with the Bank of Canada.

Let us now take a look at the profits of the chartered banks. I have a statement I would like to file as exhibit B showing the net profits, the percentage of profits to paid-up capital and the rate of dividends paid by all the chartered banks for selected years during the great depression, the Second World War and the most recent years. I do not wish to read all these figures but a blance at the table will reveal that the dividends paid for the past few years has varied from 10 to 16% except for La Banque Provinciale du Canada, where the dividend rate has been maintained at a fixed 7%. Even during the depression however, it will be noted that the rate of dividend varied from 8 to 10%, the only exception again being La Banque Provinciale du Canada. Its lowest dividend rate was 6%.

But there is even more. The dividends paid by the chartered banks do not tell the full story of their profits. We have already seen that the net profits of the banks are not all paid out in dividends.

Part of the earnings of the chartered banks are transferred to a "rest" or "reserve fund" for the benefit of the shareholders. In this connection it is interesting to note that while the total authorized capitalization of all the chartered banks amounted to $231,000,000 as at the end of 1953, yet only $152,500,000 had been subscribed and paid up. At the same date

the "Rest or Reserve Fund" for the shareholders amounted to $260,400,000, — $108,000,000 more than the total capital paid up by the shareholders'.

Nor is this all. In the issue of Hansard of March 3, 1954, at page 2615 we find that the following sums have been transferred to contingent reserves by the 10 chartered banks collectively:

Fiscal years	Transfers to contingency reserves, net
1945	$ 22,244,000
1946	$ 6,902,000
1947	$ 17,243,000
1948	$ 15,524,000
1949	$ 20,993,000
1950	$ 20,600,000
1951	$ 27,965,000
1952	$ 27,069,000
1953	$ 24,834,000
Net transfer	$ 176,471,000

It will be noted that since 1945 the total amount transferred to contingency reserves is $176,471,000, or an average of 19,608,000 a year. This figure is nearly as great as the amount of profits that the banks paid out in dividends in the same period of time. It is far greater than the amount set aside during the same period of time in the net or reserve fund for their shareholders.

Besides this contingent reserve the chartered banks have shareholders reserves and depreciation reserves. It is interesting to note that the rest fund of the chartered banks increased from $136,755,000 in 1943 to $260,400,000 in 1953.

What is the contingent reserve? It is a reserve established to provide for any market depreciation in the published value of the assets of the chartered books. It would be interesting to know what losses — if any — have been suffered by the chartered banks through the sale of assets below the par value, or the purchased value, as well as what capital gains have

been made by the chartered banks in the sale of securities purchased at par or under par. This is an aspect of banking that I do not propose to pursue because it does not affect the principle we are endeavouring to establish. But it would be most interesting to have this information.

Banks as Public Utilities:

While the implementation of proposal number 2 will affect the level of profits of the chartered banks, it will on the other hand help to guarantee a high level of business activity which will undoubtedly result in a further expansion of the banks business.

The operations of the banks constitute just as much - and even more so - a public utility than the Bell Telephone system, power companies, railway companies, etc. Milk in many provinces - Alberta ~~is~~ one of them - has been established a public utility. Surely no one will deny that a sufficient and constant supply of money is just as necessary to the economy of the country as transportation, power, telephones, and milk. Why them should the chartered banks claim the right to make far greater profits than any other public utility?

Although the implementation of Proposal number 2 will admittedly affect the profits of the chartered banks, this is not the main object of the proposal.

The possible reduction in the profits of the chartered banks is purely incidental to the main objective, which is greater control of the money issued as an interest bearing debt by the chartered banks and the increased circulation of money issued at cost by the Bank of Canada to effectively finance consumption of our vast production potentialities.

I realize that some people will immediately raise the bogey

of printing press money and inflation. I will deal more fully with the question of inflation in discussing Proposal No. 3.

In the meantime let me put forward these questions for consideration?

1. Is it inflation for the chartered banks to expand credit money - fountain pen money - up to 10 times the amount of its cash reserves?

2. Is it inflation if the banks charged 6% interest on this expansion of money

3. If instead of the chartered banks being required to retain cash reserves up to 10% of their deposits, the percentage were increased to 20%, would this be inflation?

4. If the banks were required to reduce their deposit liabilities to within 20% of their cash reserves and the amount of the reduction were to be made up by the Bank of Canada, would the amount so issued by the Bank of Canada to replace the amount withdrawn from circulation by the chartered banks constitute inflation?

These questions are asked to make one point clear. Up to now we have not discussed any increase in purchasing power or in the amount of money in circulation. All we have proposed thus far is the limitation of the issue of bank credit by the chartered banks for the purpose of enabling the Canadian Government to put into circulation a limited deposit of money issued at cost by the Bank of Canada. This in itself is already a great achievement and would certainly be a step toward the elimination of the weaknesses of our Canadian Banking system, namely, that there is no other possible way for chartered banks to issue money except as an interest bearing debt, which can never be paid back in full without default, repudiation or bankruptcy. This weakness as we have already pointed out, leads to a chronic deficiency in purchasing power and is one of the main reasons why we have unemployment and existence of so-called surplus goods.

I wish to repeat. The chartered banks make absolutely no provision for issuing interest free purchasing power required to finance the consumption of the goods we are able to produce -- and have produced. It is the obvious responsibility of the Canadian government to remedy this weakness.

How can the Canadian government put into circulation interest free money created by the Bank of Canada and designed to supplement the amount of purchasing power in circulation?

This leads me to a consideration of our third proposal.

PROPOSAL NO. 3

The Bank of Canada Act should further be amended to provide that the Bank of Canada shall credit the account of the Canadian Government at cost with such sums of money as may be necessary from time to time to supplement the aggregate money supply of the country, the purchasing power so issued to be put into circulation by the Canadian Government in one or more of the following ways:

a) As payment of some of the services provided by the Government namely, veterans benefits, family allowances, old age pensions and security payments;

b) For the gradual retirement of the public debt;

c) In payment of capital expenditures, other than in the industrial field;

d) As subsidies for the purpose of reducing consumer prices and preventing inflation;

e) In payment of consumer dividends to the extent necessary to enable the distribution and consumption of available goods and services;

This proposal constitutes a considerable departure from the existing concept of a central bank. But it is time we faced realities and recognized that in this country the age of scarcity during which existing banking policies and banking principles were developed have long since disappeared, and that our main problem today is not the need of expansion of credit by the banks to finance production, but rather the necessity of adequately financing consumption.

As we have stated the basic reason for the existence of the chartered banks is to make money -- i.e. profits -- for their shareholders. Their main source of revenue is from the interest charges they make -- not on loans made by lending the cash deposited with them by their customers -- but rather on the loans made by expanding credit -- "fountain pen" money. This already has been covered fully.

The Bank of Canada has been called the bankers' bank. It undoubtedly has assisted the chartered banks to carry on their business more efficiently, for the greater benefit of their shareholders and for the greater protection of their depositors. It was never the intention however, that the Bank of Canada should direct the chartered banks to expand credit in any other way except in the form of interest bearing loans.

In the Canadian MacMillan Report on Banking and Currency, we find at page 69 a summary of the positive services that could be performed by a central bank in the following words:

> ".....it (a central bank) would substitute for the present undeveloped and anomalous system a more rational and unified control over the credit structure; it would provide a suitable instrument for the execution of a national policy in regard to the external value of the currency; it would be increasingly a source of skilled financial advice for the Dominion and possibly for the Provincial Governments; and, finally, it would provide a central body which could maintain relations with similar institutions in other countries, which find at present no counterpart in Canada with which to maintain contact."

While recognizing the advantages to be gained by the organization of a central bank, the MacMillan Commission nevertheless points out that a central bank is not a cure-all. In paragraph 235 we read:

> "A central bank could not cure all the economic ills of Canada; it would not be a source of unlimited credit for all borrowers on all occasions; indeed its operations might as often be restrictive as expansive."

It is clear from these quotations that the Bank of Canada was never vizualized as other than an institution that would operate in an orthodox manner under an orthodox financial system. It has been pointed out that the main function of the Bank of Canada is to regulate and control the issue of money and credit. It was never contemplated by the MacMillan Commission that the Bank of Canada should make loans at cost to the Canadian government or to issue money at cost to the Canadian government to finance a part of government expenditures.

It is folly of course to expect that the chartered banks should use their facilities to expand credit to finance the consumption of goods already produced through loans made for that purpose, when it is obvious they could not obtain any returns, i.e. make any profits, from interest free money put into circulation to finance consumption. It is not folly however, to expect that the Bank of Canada, which has at its disposal all the machinery necessary to do so, should provide the Canadian economy with the necessary supplementary purchasing power, which obviously cannot come from the chartered banks, to finance the distribution and consumption of goods the production of which has been financed by the chartered banks and which are surplus to the ability of consumers to buy. That is the crux of Proposal No. 3.

This revolutionary concept in our monetary system was forecast long ago. As one example the magazine "Food For Thought", official organ of the Canadian Association for Adult Education, started publication in Toronto at the beginning of the second World War. The issue of September, 1942, contains an article written by the Editor, C. E. Silcox, entitled "Morale and Money", in which we find the following statement:

"A New Monetary System Coming"

> It must be clear to all that the world is moving towards the adoption of a new monetary system. We are already half-way committed to it, and the sooner the man on the street can catch glimpses of this new system, the sooner will he believe that our way of life is worth living for, fighting for, dying for. Morale is sustained by hope more than by fear. Men who have seen their savings swept away by the old impossible monetary system with its recurrent booms and depressions, and by an utterly irrational system of taxation respond today with approval to the statement of the Archbishop of Canterbury that finance must be reformed, that we must restore the natural sequence of consumption, production and finance, and not allow money to dominate the whole economic structure. That is the essence of the monetary revolution of tomorrow -- it is the moralization, for the first time in history, of money. We are in the transition from a mercantile economy to a welfare economy, made possible by the machine and the techniques of modernity, and woe to the man who tries to drive humanity back to the old slavery! With constantly expanding production, there should be constantly expanding credit or money, although new rules may have to be made to determine the criteria for judging

when a nation has more than enough 'money' in circulation."

The introduction of this new principle into our monetary system cannot be delayed much longer without disastrous results to our economy, and for that matter to our modern civilization.

We owe it to those who gave their lives to make this a better country to live in to see to it that never again will we face another depression and unemployment simply because of the inability of our banking system to put into circulation the purchasing power required to finance the distribution and consumption of goods already produced. That is why we advocate this change in the Bank of Canada Act immediately.

The implementation of Proposal No. 2 will provide the chartered banks with all the money required to enable the Canadian economy to meet the productive requirements of the country. Proposal No. 2 will not however enable the banks to put into circulation the additional amount of money that may be required to enable the people to consume the goods already produced. In other words, Proposal No. 2 does not provide money to meet any deficiency in aggregate purchasing power that might exist. The implementation of Proposal No. 3 will provide the necessary money issued at cost by the Bank of Canada to accomplish this purpose. How can this be done?

There are several ways in which increased purchasing power can be put into circulation by the Canadian government but we feel the proper place to start is in the field of social services.

In the Public Accounts of Canada for the fiscal year ending March the 31st, 1953, we find the following expenditures incurred by the Canadian Government in various fields of social services, namely:

Family Allowances (P.37)		$ 334,200,000.00
Veterans Affairs	241.7	
Less Administration	14.7	
	226.7	226,700,000.00

Contributions to		
a) Old Age Pensions	$19,136,306.00	
b) Blind Pensions	2,986,156.00	
	$22,099,462.00	22,099,000.00
Old Age Security (See Table 0-51)		323,141,000.00
Total		906,140,000.00

Who will argue that the old age pensioner or the blind pensioner is receiving adequate purchasing power to meet even his bare necessities? The total pension of $40.00 a month paid jointly by the Canadian government and the Provinces certainly is not enough under present circumstances to provide these pensioners with the standard of living that our vast resources could justify. Yet the reason why more adequate assistance is not forthcoming from the Canadian Government is that we cannot afford more!

In Alberta we realized that $40.00 was far from sufficient. We are now supplementing this amount by an additional $15.00 a month paid entirely by the Province! Other provisions also are paying supplementary pensions for the same reason.

In so far as the Old Age Security Payments and the Family Allowance Benefits are concerned, it may well be argued that there are some people receiving these benefits, who do not need them and consequently any increased benefits paid to these people, would not necessarily constitute an increase in purchasing power. With that we must agree. But I think it will be recognized by all that this constitutes a very small minority of all the people now receiving old age security benefits and family allowance benefits.

The same applies to veterans' benefits.

We would recommend therefore, that these social service benefits be increased 50% immediately. This would result in an increase of purchasing power to the extent of $450,000,000.00 where it will be doing the most good, i. e. where the money paid out will be more readily spent. We

recommend further that this amount of money be issued to the Canadian government by the Bank of Canada at cost. This of course would be increased purchasing power.

Furthermore let us not forget that the social service benefits now paid by the government are paid from the proceeds of taxation. We recommend that part of the cost of these social service benefits could well be paid by money issued at cost by the Bank of Canada, with a reduction in taxation. This reduction in taxation does not mean an increase in aggregate purchasing power, because the money paid in taxes to the government is put back into circulation by the government. It does mean however, a reduction in the cost of government services. The cancellation of some taxes would result in far greater benefits to ultimate consumers than only a reduction in the cost of government.

Take the sales tax for instance. This is the tax that bears most heavily on the people and increases the cost of living of the people.

Let us take a look at the figures:

On pages 23 and 24 of the Public Accounts for the Fiscal Year ending December 31st, 1953, we find the following information:

Revenue from general sales tax (8%).....	$ 553,840,000.00
Old Age Security Sales Tax, (2%).........	114,600,000.00
Total sales tax collected................	$ 725,440,000.00

The sales tax is collected at the manufacturer's level, and that it pyramids as the wholesaler and retailer add their markup to it. The result is that the sales tax paid by the people is not 10%, but may be as much as 25% on the retail price level.

It is difficult to obtain definite statistical information on this point, but there can be no doubt about the principle involved. In a study called "Taxing to Prevent Inflation", published in 1943, Dr. Carl Shoup of Columbia University made the following statement:

> "Both (manufacturers' and wholesale sales) taxes may result in some pyramiding: that is, the retailer and, under the manufacturers' tax, the wholesaler also, may apply their customary percentage mark-ups to a cost price that includes the sales tax, thus obtaining a profit on the tax".

The extent to which this pyramiding has been carried on in Canada can be gathered from reading the report prepared by H. R. Archibald Harris, C.P.A. on the results of his investigation into the Canadian sales tax for the Illinois and Indiana Bankers Association. At page 35 of the report entitled "The Sales Tax in Canada", published in 1923, we find the following statement:

> "The so-called painlessness of the Canadian tax is costing the taxpayer about 40 per cent more in taxes than would be necessary if the tax were simply added on to the price which the consumer finally pays, instead of being put on the sales price of the manufacturer."

In the light of these statements no one should challenge our statement that the sales tax pyramids retail prices.

The elimination of the sales tax therefore would have the effect of leaving with ultiiate consumers an amount of purchasing power which would have a stimulating effect upon business much to the advantage of the whole economy. The elimination of the sales tax with the greater reduction still in the price of goods will result in placing many Canadian industries in an improved competitive position in the world trade. Of course the elimination of the sales tax would mean $700 million dollars that would have to be supplied by the Bank of Canada. It may well be that the process would have to be gradual in order to avoid inflation. There might be some reason why instead of eliminating the sales tax, some other tax could be eliminated or reduced. For example almost the same result could be obtained by reducing the personal income tax on the lower incomes and increasing the amount of the exemption.

Might I make it clear at this point that we are not suggesting the elimination of all taxation. On the con rary we believe it would

be well to tread very cautiously in this direction and establish this principle gradually. The reason we suggest the elimination of the sales tax or a reduction of the personal income tax on the lower incomes, is because these taxes have the greatest bearing on the standard of living of the people. The sales tax is reflected in the price of goods. It is a tax paid by everybody rich and poor alike, but it is a tax that bears more heavily on the poor than it does on the rich.

The elimination of the sales tax, would not only reduce the burden of taxation on the man least able to afford it, but it would also result in an immediate reduction in the cost of living.

<u>Reduction of National Debt</u>:

A second way in which the Canadian government can put into circulation debt free money issued at cost by the Bank of Canada is in the gradual repayment of the public debt.

Let us consider for a moment the question, where does the Canadian Government now get its money to finance its operations? In his evidence before the Banking and Commerce Committee in 1939, Mr. Graham Towers, in answering a direct question, stated that there were three ways by which a Government could obtain the money it required to finance its services. Said Mr. Towers:

> "A government can find money in three ways: by taxation, or they might find it by borrowing the savings of the people, or they might find it by action which is allied with an expensive monetary policy, that is borrowing which creates additional money in the process."

In his evidence before this Committee a few weeks ago Mr. Towers indicated that the only occasion on which the Bank of Canada made a direct loan to the Canadian government was at the outbreak of World War 2, when the gold reserves of the Bank of Canada were transferred to the Foreign Exchange Control Board. The explanation offered is that it was better for

the Government to borrow directly from the people in the first instance, and then from the chartered banks if additional funds were required. The latter is the type of borrowing that results in the creation of additional money.

We fail to see any necessity for the Canadian government borrowing from the chartered banks and taxing the people to obtain the necessary money to pay interest on the loans obtained from the chartered banks, when the Bank of Canada already has all the machinery necessary to make available to the government at cost the funds that may be required by the government.

The method followed today to pay off the public debt is by means of taxation. If instead of using taxation to pay off some portion of public debt, we were to use interest free money issued by the Bank of Canada for that purpose, we would be accomplishing two things. First, we would be leaving in the hands of the people as purchasing power, the amount of money they are now paying in taxation to enable the government to pay interest on the debt, as well as the principal when it comes due. This transaction simply amounts to taking from the people a certain sum of money with one hand and giving it back to them -- or rather to another group as we shall see later -- with the other hand. The net result is that the same amount of purchasing power is in circulation, but not necessarily with the same people.

The second benefit to be derived from our proposal however, is this. When the Government borrowed money from the people, the amount so borrowed represented the savings of the people and amounted to a withdrawal from circulation of an equivalent amount of purchasing power. Repayment of any part of the government debt would therefore result in increased purchasing power put into circulation. Gradual repayment of the public debt with money issued at cost by the Bank of Canada would result in net interest savings to the Government as well as an additional means of putting

into circulation money issued at cost.

There is a wide difference of opinion however, on the value of the importance of a national debt. Some people abhor debt. They classify a national debt in the same position as private debt. They take the position that it is just as bad for the Government to go into debt as it is for an individual. There is another group of people however, that see no harm in a national debt. On the contrary they see certain definite benefits and advantages in a national debt. Some of these economists, e.g. Stuart Chase and Professor Hansen of Harvard University, both take the position that a national debt is essential in order to provide a safe source of investment for the savings of the people and for Insurance Companies and Trust Companies. It would appear from the evidence submitted to this Committee a few weeks ago that Mr. Graham Towers also belongs to this school of thought.

In his book 'Fiscal Policy and Business Cycles', Professor Hansen in dealing with the question of public debt vs. private debt, devotes the whole of his chapter to reviewing and approving the principles enunciated by Professor Jorgen Petersen of the University of Aarhus, in Denmark. Professor Hansen, at page 142 of his book, quotes an article written in May 1937 in the "Weltwirtschaftliches Archiv", by Professor Pedersen as follows:

> "Borrowing, as the term is commonly used, has two characteristics without which one could not speak of a loan: (1) there must be a transfer of the disposal over funds from one economic unit to another; (2) the burden of the borrower is distributed over a period of time during which repayment of the loan takes place....When, however, the state borrows from its subjects, neither of the two characteristics is present. The state does not obtain the power of disposal over additional funds, for these funds were already within the realm of its power, and might, in fact, have been obtained through taxation.
>
> Thus an internal loan raised by the state is not really a loan in the ordinary sense, since it possesses none of the essential characteristics of such a transaction. There is no transfer of funds from one economic unit to another, and no burden is shifted to future generations."

This statement raises the following questions:

1. If the state could obtain the monies it borrows from taxation instead of by borrowing, why does it not do so?

2. Is it because the sums involved are so great that to obtain them from taxation would mean in effect confiscation of wealth?

3. What kind of taxation system would Canada have required during the war to raise the billions of dollars that we borrowed over and above the taxes we paid to help finance our war effort? Even Mr. Towers admits that additional taxation in Canada would have been detrimental to our economy.

4. The debt of the United States increased over 200 billion dollars since entering the last World War. How would it have been possible for the U.S. government to obtain these tremendous sums from additional taxation over and above the huge sums already obtained by this method?

5. What about the amount borrowed by Great Britain during the War? and France? and all the other nations?

6. Would not the rate of taxation required have been such that it would have ruined the economy of these countries completely?

7. As to the statement that "no burden is shifted to future generations", what future generation has ever paid a national debt? Does posterity ever pay? Andrew Jackson did succeed in repaying the U.S. debt in 1835, but what has happened to the U.S. debt since?

I do not want to repeat what I have already said in this respect, but I am bound to say that I cannot follow the logic behind such statements as made by Professor Petersen and endorsed by Professor Hansen.

Professor Hansen refutes the merit of his own argument when he points out that the greatest part of the national debt has become centralized in a few hands. At page 179 of Professor Hansen's book "Fiscal Policy and Business Cycles", we find this statement:

"In so far as the government can borrow from small savers, an increase in the public debt will not prove unfavorable to an equitable distribution of wealth. But if the growth in the public debt is very rapid, it will not be possible for relatively small savers to take any large proportion of the new securities issued. They will be absorbed by the rich and the well to do, and by large corporations. A rapid growth in the public debt is, therefore, likely to intensify the inequality in wealth distribution. This is the most fundamental objection that can be raised against financing mainly by borrowing."

Again at page 153 we read:

"An examination of the tax structure prevailing in the early half of the nineteenth century would indicate that, in all probability, the huge dead-weight debt served to add to the flow of individual savings. This is true for the reason that the taxes were heavily of the indirect type, which did not weigh severely on the incomes of the rich, while on the other hand the rich, for the most part, held the government bonds. Thus, funds were taken through taxes from the community as a whole and paid in the form of interest to the wealthy holders of bonds, whose incomes flowed largely into the stream of savings."

Stuart Chase points out the same thing. In his book, "Where is the Money Coming From", he writes at page 102:

"On June 30, 1942, 38 per cent of it (the national debt) was held by commercial banks, 17 per cent by purchasers of savings bonds, 17 per cent by life insurance companies and mutual savings banks, 14 per cent by social security and other government trust funds, the balance by miscellaneous organizations."

Total it up and you will find that financial institutions held 55% of the U.S. national debt as at June 30, 1942, as against 17% for individuals, thus leaving 28% for all other types of bondholders. There can be no doubt that with the terrific increase in borrowings during the war, the discrepancy is far greater today.

Let us take as an illustration the story of the Victory Bonds. People were urged to buy Victory Bonds during the war. They were told it was their patriotic duty to do so because the government needed their money to help finance the war, buy guns and planes and ammunition, and so on. High pressure sales campaigns were organized to get the people to buy these bonds. The greatest achievement in this respect was in the organization of

the salary deduction plan. But then there was also a bank loan plan. Many a campaign was "put over the top" by the simple expedient of having people borrow 200, 300 or 500 dollars from a bank and give the bank the Victory Bond as security. At the outset the bank would charge on the loan the same amount of interest that the individual was receiving on his Victory Bond. In due course the bank would notify the bondholder that henceforth the interest rate on his loan would be increased by 1%! The borrower would immediately dispose of his bond to the bank, retire his loan, and the bank received the bond. Many of the Victory bonds issued in this manner or to people on the salary deduction plan ultimately found their way into the hands of the financial institution, thus intensifying "the inequality in wealth distribution", to use professor Hensen's words again.

The worst feature of our national debt of course is the interest charge thereon. I have already pointed out that since Confederation Canada has paid $8,045,608,148. in interest alone on the national debt and still owes $11,185,000,000!

There are 3 kinds of public debt:

1. The dead-weight debt, for which the country derives no direct benefit. e.g., borrowings for relief, or for war.

2. The passive-debt, which results in development projects on which no direct money returns are received; e.g. monuments, parks, play-grounds, etc.

3. The active debt, incurred for the development of revenue producing projects; e.g., telephone systems, power developments, irrigation projects, etc.

Our whole concern in discussing the national debt is with the first two categories. The third class is in the nature of a self liquidating project.

Why should a sovereign country be required to pay interest on its national debt? Of course I realize that if the state is going to

borrow from its people it should pay interest, but why should it borrow under those circumstances? Why should Canada have to borrow bank credit from the banks and pay interest on such loans when the banks received the authority to issue such bank credit from the government of the nation? Why should Canada have to pay interest on loans obtained from the Bank of Canada when the Bank of Canada is an institution set up by the Government of Canada to regulate and control the issue of money and credit?

Stuart Chase, at page 105 of his book "Where Is The Money Coming From" quotes the National Resources Planning Board as saying:

> "Should the day arrive when the carrying charge on the Federal debt becomes oppressive, serious thought should be given to the creation by our modern banking and treasury institutions of non-interest bearing debt".

On the same page Stuart Chase states:

> "If the government borrowed solely from its own central bank without interest, there need be no interest burden at all. There would be amortization of the principal, and the fundamental prohibition not to pump too many new dollars into the system would still stand."

Our debt must be paid. Our interest charges must be reduced. This can only be done by gradually replacing our interest bearing debt with money obtained at cost from the Bank of Canada. The funds so obtained can be used to repay our debt gradually and thus maintain purchasing power in circulation.

Capital Expenditures:

The third way in which money issued at cost by the Bank of Canada can be put into circulation by the Canadian government is in expenditure for capital investments.

During the Second World War a Post-war Reconstruction Committee was set up by the House of Commons to investigate ways and means of avoiding a depression when the war was over. The committee did a great amount of research, and presented reports from time to time to the House of Commons. In the Interim Report presented to Parliament dated June the 23rd, 1943, the following paragraphs are of the utmost significance:

14. Canada abounds in natural resources, in all its provinces and in the Yukon and Northwest Territories. The proper utilization of our resources will provide both employment and opportunities for colonization and industrial development, through flood control, irrigation, reforestration, conservation of water, the exploration of mineral and oil deposits, the development of water power, and the provision of highway and railway transportation where required by settlers or by industry.

15. Your committee is strongly of opinion that every member of the armed forces and the merchant navy is entitled to be assured that Parliament and Government will be prepared to do what lies within their power to prevent any recurrence of mass unemployment in Canada. The actual definite steps that must be taken to prevent mass unemployment permanently are matters of controversy upon which your Committee is not yet ready to make recommendations. We are convinced, however, that since human welfare is the supreme function of Government, Parliament and Government must at all times be prepared to make every effort to maintain full employment.

17. When war is over, some other definite aim must take its place as a motivating cause of national economic activity. Thoughts of those who return to us from the field of battle and of the dependents of those who die, and of what they fought and died for, will supply the aim. Your committee is certain that the means of so doing will be found in the conservation and proper utilization of our natural resources, and in the decision that markets will be sought for our production by governmental intervention where necessary from time to time. In this respect we welcome the conclusion arising from the United Nations Food Conference that never again will food be destroyed simply because people have not enough money to buy it.

Let us read again the last sentence of recommendation No. 17:

"Never again will food be destroyed simply because people have not the money to buy it."

With surpluses already existing in many commodities, we again hear talk of surplus production and unemployment, not only in Canada but also across the line in the United States. We again hear the talk about restricting production, cutting down acreage under production, because of the so-called production.

It is high time to give serious thought, not only to putting the machinery to work to avoid the threatening depression, but also to the question of whether the money required to finance these projects is going to be borrowed from the chartered banks, or issued at cost by the Bank of Canada?

SUBSIDIES

Fourth way in which new money can be put into circulation is in the payment of subsidies for the purpose of reducing consumer prices and preventing inflation.

The principle involved in the payment of subsidies has long been familiar to the people of Canada. In the past subventions have greatly assisted the coal industry. The gold mining industry is receiving similar aid today. During the war a variety of products such as milk were subsidized so that their cost to consumers remained at a level which made it possible for producers to meet their rising costs.

It m ght be said our recommendation is an extension of these payments, with the emphasis placed on the needs of the consumer. That is to say, the purchasing power should consist of new money issued by the Bank of Canada at cost and put into circulation by the Federal Government primarily for the benefit of consumers through the reduction of prices of goods.

The use of selective subsidies will have the two-fold effect, first of reducing the prices of goods to the great advantage mainly of families with low or fixed incomes; and, secondly, if applied to Canadian made goods of assuring more adequate distribution of our own Canadian production.

CONSUMER DIVIDENDS

The fifth way in which money issued at cost by the Bank of Canada can be put into circulation by the Canadian Government is in the payment of soncumer dividends.

It is a fact which must be recognized that "full" employment is no longer possible. The payment of consumer dividends must progressively replace wages and salaries of those who are too old to work, those who are unable to work because of disability and those

who cannot otherwise get possession of purchasing power in through work and wages.

This principle is also well e stablished in the payment of family allowances, old age pensions and other social security payments. Our recommendation here again is simply an extension of the principle already recognized.

But again, there is this difference. Today the money used for the payment of social services comes from the pockets of taxpayers -- or, if you wi sh, the consumer. This is merely a redistribution of purchasing power. It does not add one cent to the aggregate amount of purchasing power in circulation. We propose that money used to pay consumer dividends must be new money created by the Bank of Canada and used for the purpose mentioned in relation to new production. Any contributory scheme, or any payments made out of funds taxed from the people only serve to aggravate an already chronic shortage.

Inflation:

The one objection that will be raised against our proposals is of course the old bogey of inflation. What is inflation?

Inflation is a condition created by the folume of purchasing power being in excess of the total normal prices of goods available for sale. This results in a rise in prices, which means that every dollar will buy less.

Deflation is a condition resulting from purchasing power being insufficient to buy the available goods on the market. This leads to goods piling up, production being restricted, unemployment increasing and a general condition of poverty amidst potential plenty. Its evil effects are in some respects worse than inflation.

The implementation of Proposal No. 2 cannot possibly result in an inflationary condition. Proposal No. 2 consists merely in maintaining the present volume of money in circulation and in making provision for any additional money that may be required to ensure the progressive development of the national economy. Increased production will require an increased supply of money. The implementation of Proposal No. 2 will assure this

supply of money.

Proposal No. 3 is designed to enable the Government to supplement the money requirements of the country when necessary to balance consumption and production by the use of money issued at cost by the Bank of Canada.

If the amount of money put into circulation in this manner does not exceed the normal prices of goods already produced, how can this be called inflation?

Furthermore, the expansion of credit or issue of money that will tend to increase the purchasing power of the people and at the same time result in a reduction of prices by reduced taxes cannot in any sense of the word be called inflation.

Money put into circulation cannot be called inflation so long as the total supply of money in circulation does not exceed the total normal prices of goods available for sale. There are many famous cases of disastrous inflation to be found throughout history. The case of the German Mark after the Second World War is well-known. The case of the issue of the French Assignats at the time of the French Revolution is also a matter of common knowledge. The fundamental weakness is these two cases like in all cases of inflation is that there were insufficient goods available for distribution in relation to the amount of money tickets put into circulation. The amount of money in circulation does not necessarily create inflation. If the eight billion dollars of bank deposits we have today had been issued at the beginning of the century, then there would undoubtedly have been a terrific situation of inflation because our production system was not ready for it. Two conditions characterize a period of inflation: an increase in the amount of money in circulation followed by an increase in the level of prices. But while surpluse of wanted goods exist, inflation is impossible. During the war we certainly had a terrific increase in bank deposits, but there was no corresponding increase

in the price level because of the price controls imposed by the government. As soon as these price controls were removed however, after the war was over, then the price level immediately began to rise and we had inflation.

Let us not forget either that this inflation took place right here in Canada and under ~~the~~ existing orthodox banking system!

Expanding Economy:

There is one final point I wish to make. In an expanding economy such as ours it is constantly necessary to increase the amount of money in circulation if we are going to increase production and provide for the distribution of the increased amount of goods that our economy can provide. Should we not do so, deficiency in purchasing power is of course inevitable. This is deflation and deflation is in every respect just as bad as inflation. Professor Hansen points this out very clearly in his book "Fiscal Policy and Business Cycles" where he states at page 173:

> "To make the system of free enterprise workable, it is absolutely necessary to ensure a rising national income. Should the income remain stationary, rising per worker productivity would imply an ever-growing volume of unemployment. A static national income, with or without a rising public debt, would wreck the economic order."

No where in our proposals do we recommend that the government should put into circulation more money than is adequate to finance the distribution and consumption of goods already available. The government has in the Bureau of Statistics an agency that is well able to ascertain the physical requirements of the country and the physical development taking place in the country. In the Bank of Canada the government already has the necessary machinery, to implement immediately any change necessary to gear the money supply of the country to the productive capacity of the country. That is the effect of the proposals we advocate.

Use of Bank of Canada Notes:

Some will object that the implementation of these proposals will result in the country being flooded with Bank of Canada bank notes.

Let us examine the objection.

We have already pointed out that according to the Bank of Canada Report for the year 1953, the total chartered bank reserves consisted of 888 million dollars. The Canada Gazette of February 6, 1954 contains a statement of the affairs of all the chartered banks of Canada as of December 31, 1953. Column 2 gives the total amount of subsidiary coin held by all the banks in the amount of $18,433,000. Column 3 gives the amount of the Bank of Canada notes held by all the chartered banks. The figure is $263,791,000. Both of these columns combined amount to $282,224,000. This represents the currency held by the chartered banks. The balance of the cash reserves of the chartered banks is to be found in Column 6, headed "Deposits with Bank of Canada." The total is 623,885,549, nearly three times the amount of currency held. Now this $600,000,000 on deposit represents a claim by the chartered banks against the Bank of Canada for Bank of Canada notes. Why do the chartered banks not ask for these notes? Simply because they are not needed and it is more convenient for the chartered banks to settle their inter-bank balances by giving each other cheques on their accounts with the Bank of Canada than it is to exchange bank notes, and provide all the security measures required in connection therewith.

The same procedure will be followed by an issue of bank credit by the Bank of Canada to the Canadian Government. There will be no change whatsoever in the manner the Canadian Government will deal with this bank credit. It will issue cheques against it as it is doing now. Some might even be cashed at the banks, in the same way they are cashed now. The chartered banks in due course will deposit these cheques in their accounts with the Bank of Canada. The net result is that the chartered banks will have larger accounts with the Bank of Canada, but the actual cash supply, or Bank of Canada notes in circulation is not increased. Should an increase be required at any time, the chartered banks may obtain the

notes they require by issuing cheques on their account with the Bank of Canada, to the Bank of Canada, and the notes are paid for. The machinery for these transactions is already in operation; it is efficient; it is simple; consequently it should not be changed.

We must realize of course that we must always be on guard against inflation. Should inflation threaten it can be controlled by taxation and subsidies. That is why we do not propose the elimination of all taxation. Taxation may be found necessary to provide local areas with local benefits, the cost of which should not be borne by the people of the country as a whole. Taxation may also be found necessary to maintain a better distribution of wealth and to avoid concentration in the hands of a few. Taxation may also be necessary to control the amount of money in circulation. As and when a surplus amount of purchasing power is found to be in circulation,-- redundant purchasing power -- then the taxation machinery should be used to withdraw from circulation such redundant purchasing power. Thus taxation can be used not only as an instrument of fiscal policy but also as an instrument of monetary policy. By the same token the imposition of taxation can result in a decrease in purchasing power. Thus at all times will full and definite control be maintained over the amount of purchasing power in circulation, not by using the public debt as an instrument of national fiscal policy, as some ecomomists advocate, but rather by using taxation as the main instrument of national fiscal policy. Taxation can be used not only as an instrument of fiscal policy but also as an instrument of monetary policy.

CONCLUSION

Employment:

In concluding let me say a word about employment. Sufficient has been said about unemployment.

It has been estimated that with the tremendous advance of technological knowledge, particularly during and since the Second World War, and with the current development of atomic power for peace-time purposes, it will be impossible to provide a full five day week-work for all the physically employable citizens of the country. It is fear of this that is causing organized labour even to resort to featherbedding and slow-down methods of production for the purpose of keeping their union members fully employed. Were we to eliminate the fear of unemployment among the ranks of labour as the result of the introduction of still further labour saving devices and machinery, it would be possible to produce still more even today with the same amount of manpower, machinery and equipment.

The day is not too far away when we will have to choose between two alternatives: First, retain on a full five-day week half the number of labouring people necessary to produce all the goods required by the nation, and endeavour to use the other hald in the development of non-productive projects; or, secondly, reduce the labour week to three or four days a week, without any reduction in pay and thus increase the number of people employed in the production of the maximum amound of goods.

The main objective of our Canadian economy should be to raise the standard of linving of Canadians to the highest point possible through the full utilization of the manpower and natural resources of the country.

We must face it. This objective cannot be achieved under a banking system where all money is issued as an interest bearing debt, and where you are called upon to pay back more to the banking system than the

banking system puts into circulation. This objective can not be achieved under a banking system that has as its main purpose the making of money -- i. e. the making of profits -- for the benefit of its shareholders.

This objective can only be achieved by the establishment of a banking system and the inauguration of banking policies that will provide a constant supply of money or purchasing power sufficient not only to produce all the goods that our vast resources of manpower and material wealth can make physically possible; but also sufficient to make possible the distribution of our entire national production or its equivalent.

This is the challenge facing us today. Three roads lie ahead ... and we must choose one of them.

The first is to carry on with our banking system such as it exists today. This of course means accepting the necessary consequences -- depressions and unemployment. We have already been told in Parliament by a Minister of the Crown that under the present orthodox financial system it is impossible to provide for an increase in old age pensions (Hansard, 1954, P. 3, 302).

The second is, the road of nationalization. I do not propose to discuss this road at any length because nationalization or public ownership of the chartered banks would not necessarily solve our problem. Indeed such a course might even worsen it. What is required is a change of policy not a change of ownership of the banks because the chartered banks are already subject to controls under the Bank Act and the Bank of Canada Act.

Furthermore nationalization of the chartered banks would be subject to all the evils attendant upon the nationalization of any commercial enterprise. It is surrounded with dangers.

The only reason I rais this question of nationalization of the banks at all is because it is the only other concrete proposal advanced by a national group in this country to solve the problems of depressions and

unemployment. This group is undoubtedly sincere but the only difficulty concerning this proposal is that it just will not work.

The third road before us is the implementation of the proposals we have submitted for your consideration. If there is any plan other than socialism of our own to do away with depressions and unemployment, we have no knowledge of it. But if there is any other proposal, and after examination we find it capable of doing a better job than the proposals we have advanced, we will be delighted to support it.

I repeat, there are only three roads ahead of us: the status quo, socialism or that laid down in these proposals. It is for you to make the choice. The final responsibility is yours. I can only express the hope that in making your decision you will keep in mind the words of the Post War Reconstruction Committee.

> "Never again will food be destroyed simply
> because people have not enough money to
> buy it."

1 Year	2 Capital	3 Rest or Res. Fund	4 Bk. notes in circulation	5 Specie & Dom'n Notes (Cash Reserve)	6 Deposit Liabilities	7 Ratio Can. Cash to Can. Dep.
1861	26,891,224		13,662,641	7,037,239	19,148,528	
1862	26,416,504		9,738,492	6,171,678	19,814,690	
1863	26,982,180		10,515,140	6,512,058	22,539,226	
1864	29,831,426		8,635,503	5,582,337	24,004,089	
1865	30,744,167		12,128,772	7,594,170	29,926,879	
1866	29,634,767		10,920,035	6,130,519	28,750,191	
1867	30,926,470		9,346,081	9,330,000	31,375,316	
1873	54,690,561		27,165,878	16,128,320	65,426,042	
1876	66,804,398		21,245,935	14,494,117	72,852,686	
1884	61,579,021	18,149,193	30,449,410		102,398,228	
1892	61,626,311	24,511,709	33,788,679	17,794,201	166,668,471	8.8
1902	69,869,670	40,212,943	55,412,598	35,478,598	390,370,493	7.9
1913	116,297,729	109,129,393	105,265,336	141,872,884	1,126,871,523	11.1
1920	123,617,120	128,756,690	228,800,379	367,165,054	2,438,079,792	9.9
1930	144,560,874	160,639,246	159,341,085	232,016,616	2,516,611,587	9.2
1936	145,500,000	133,000,000	119,507,306	240,596,447	2,614,895,597	10.0
1941	145,500,000	133,916,667	81,620,753	318,039,223	3,464,781,844	10.2
1946	145,500,000	144,666,667	23,172,717	686,368,427	6,771,555,153	11.2
1951	146,502,115	200,837,564	279,630	799,304,753	8,464,510,837	10.0
195[illegible]	152,500,000	206,400,000	10,000,000	888,000,000	9,123,000,000	10.2

APPENDIX "B"

STATEMENT OF PROFITS AND DIVIDENDS

CHARTERED BANKS

Name of Bank	Net Profits	Percentage of Profits to Paid-up Capital	Rate of Dividend Percentage
Bank of Montreal (Fiscal year ended October 31)			
1932	4,663,100.00		11
1933	4,005,154.00		8½
1934	4,105,024.00		8
1935	4,007,302.00		8
1936	3,181,501.00		8
1937	3,408,328.00		8
1940	3,435,941.00		8
1941	3,437,026.00		8
1942	3,283,018.00		8- 6
1943	3,302,834.00		6
1950	5, 942,897.69	16.51	10
1951	5,355,373.66	14.88	12
1952	5,668,778.38	15.75	12½
1953	7,043,000.00	19.56	14
Bank of Nova Scotia (Fiscal year ended October 31)			
1932	2,303,434.00		15
1933	2,035,900.00		12½
1934	1,850.330.00		12
1935	1,834,174.00		12
1936	1,926,686.00		12
1937	1,982,140.00		12
1940	1,941,330.00		12
1941	1,935,602.00		12
1942	1,860,262.00		12-10
1943	1,717,961.00		10

Name of Bank	Net Profits	Percentage of Profits to Paid-up Capital	Rate of Dividend Percentage
1950	2,297,542.00	19.15	16
1951	2,428,256.14	16.40	16
1952	2,538,165.87	16.92	16
1953	3,011,000.00	20.08	18
Bank of Toronto (Fiscal year ended November 30)			
1932	1,044,393.00		11
1933	1,037,922.00		10
1934	822,499.00		10
1935	806,391.00		10
1936	1,141,810.00		10
1937	1,156,372.00		10
1940	1,294,549.00		10
1941	1,371,556.00		10
1942	1,214,729.00		10
1943	1,079,807.00		10
1950	1,207,815.62	20.13	16
1951	1,116,234.35	18.60	16
1952	1,163,220.00	19.39	17
1953	1,303,000.00	21.72	17
Banque Provinciale du Canada (Fiscal year ended November 30)			
1932	454,659.00		$8\frac{3}{4}$
1933	410,655.00		$6\frac{1}{4}$
1934	417,366.00		6
1935	400,843.00		6
1936	402,678.00		6
1937	444,410.00		6
1940	436,684.00		6
1941	440,643.00		6
1942	467,794.00		6- 5
1943	455,760.00		5

Name of Bank	Net Profits	Percentage of Profits to Paid-up Capital	Rate of Dividend Percentage
1950	336,493.73	8.41	7
1951	306,024.53	7.65	7
1952	332,844.71	7.92	7
1953	426,000.00	8.52	7
Canadian Bank of Commerce (Fiscal year ended October 31)			
1932	4,279,424.00		11
1933	3,648,832.00		8½
1934	3,413,654.00		8
1935	3,389,031.00		8
1936	2,909,124.00		8
1937	2,934,117.00		8
1940	3,006,035.00		8
1941	3,013.152.00		8
1942	2,936,053.00		8- 6
1943	2,777,019.00		6
1950	4,015,258.55	3.38	10
1951	4,023,145.46	3.41	10
1952	4,510,641.00	15.03	12
1953	5,789,000.00	19.30	12
Royal Bank of Canada (Fiscal year ended November 30)			
1932	4,861,849.00		11
1933	3,901,649.00		8½
1934	4,398,217.00		8
1935	4,340,522.00		8
1936	3,504,241.00		8
1937	3,711,379.00		8

Name of Bank	Net Profits	Percentage of Profits to Paid-up Capital	Rate of Dividend Percentage
1940	3,526,894.00		8
1941	3,535,928.00		8
1942	3,390,123.00		8- 6
1943	3,426,289.00		6
1950	6,559,725.11	18.74	10
1951	6,306,114.86	18.02	12
1952	7,129,084.72	20.37	12¼
1953	8,635,000.00	24.67	14
Dominion Bank (Fiscal year ended October 31)			
1932	1,179,931.00		11
1933	1,139,202.00		10
1934	1,151,561.00		10
1935	1,130,052.00		10
1936	951,277.00		10
1937	976,838.00		10
1940	958,788.00		10
1941	939,322.00		10
1942	920,990.00		10- 8
1943	914,249.00		8
1950	1,245,678.68	17.79	12
1951	1,169,064.00	16.70	12
1952	1,158,556.00	16.55	12
1953	1,394,000.00	19.91	13
Banque Canadienne Nationale (Fiscal year ended November 30)			
1932	972,075.00		10
1933	970,350.00		10
1934	935,823.00		9
1935	915,790.00		8
1936	727,935.00		8
1937	774,228.00		8

Name of Bank	Net Profits	Percentage of Profits to Paid-up Capital	Rate of Dividend Percentage
1940	812,588.00		8
1941	811,351.00		8
1942	776,815.00		8- 6
1943	806,266.00		6
1950	665,638.61	9.51	8
1951	802,612.18	11.47	10
1952	847,051.58	12.10	10
1953	1,365,000.00	19.50	12
Imperial Bank of Canada (Fiscal year ended October 31)			
1932	1,205,335.00		11½
1933	1,204,039.00		10
1934	1,231,992.00		10
1935	1,208,079.00		10
1936	962,813.00		10
1937	967,977.00		10
1940	961,017.00		10
1941	872,190.00		10
1942	836,149.00		10- 8
1943	836,934.00		8
1950	1,158,311.19	16.55	14
1951	1,236,400.25	17.66	14
1952	1,318,995.64	18.84	14
1953	1,402,000.00	20.03	15
Barclays Bank (Canada) (Fiscal year ended September 30)			
1932	None reported		--
1933	" "		--
1934	" "		--
1935	" "		--
1936	" "		--
1937	" "		--

Name of Bank	Net Profits	Percentage of Profits to Paid-up Capital	Rate of Dividend Percentage
1940	Not reported		--
1941	" "		--
1942	" "		--
1943	" "		--
1950	12,160.57	.81	nil
1951	17,444.10	1.16	nil
1952	10,333.11	.69	nil
1953	18,000.00	.60	nil